



A GOVERNMENT FOR THE PEOPLE FOR A CHANGE



Prescription for Change

A Report of the California Performance Review

VOLUME 1



CALIFORNIA, I BELIEVE, IS AN EMPIRE OF
HOPE AND ASPIRATIONS. NEVER IN
HISTORY HAVE SUCH BIG DREAMS
COME TOGETHER IN ONE PLACE.
NEVER IN HISTORY HAS SUCH
AN ARRAY OF TALENT AND
TECHNOLOGY CONVERGED
AT ONE TIME. NEVER IN
HISTORY HAS SUCH A FREE
AND DIVERSE COMMUNITY
OF PEOPLE LIVED AND
WORKED UNDER ONE
POLITICAL SYSTEM. THIS IS A
WONDERFUL PLACE, CALIFORNIA,
THIS EMPIRE OF ASPIRATIONS.

GOVERNOR SCHWARZENEGGER



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California Performance Review

Bringing California Back

Accountability

Dear Governor Schwarzenegger:

On behalf of the 275 volunteers you assembled to examine state government from “top to bottom,” we are pleased to present you with the California Performance Review report.

This report—compiled in response to your challenge to change and reform California—contains more than 1,000 recommendations. If all of these recommendations are implemented, they have the potential to save more than \$32 billion over the next five years.

The California Performance Review team appreciates the trust you placed in us to meet this challenge. We feel we have provided a comprehensive plan for reform that calls for accountability, efficiency and, above all else, a dramatic improvement in the way the state provides services to its residents. These recommendations are not only common sense solutions to the problems facing California, they also promote your vision of a more stable and accessible government.

We targeted duplicative and wasteful overhead costs, and found solutions to deliver services more effectively in a governmental structure that will be more responsive and accountable to the public.

The Performance Review was a monumental undertaking. In addition to those employees who spent four months of their time to engage in this historic effort, more than 1,800 other individuals—including volunteers from academia, the private sector and nonprofit organizations—gave of their time and talents. Their expertise and enthusiasm made this remarkable document possible and accessible to all Californians.

Once again, all of us at the California Performance Review are proud to present this work to you. We look forward to working with you as this document is considered by your administration and the people of California.

Sincerely,



Billy C. Hamilton
Co-Executive Director



Chon Gutierrez
Co-Executive Director



Prescription for Change

"I will not rest until our fiscal house is in order. I will not rest until California is a competitive job-creating machine. And I will not rest until the people of California come to see their government as a partner in their lives...not a roadblock to their dreams"

Governor Schwarzenegger

Diagnosis: California

California is the unique American state. Its size, its resources, its spirit, and its exuberant embrace of the future have made it the last, best destination for people seeking a better life. This California holds so much promise that we should never fail to meet our people's highest hopes and expectations.

California's spirit is alive and well, but in one vital area, the state is ailing. Once the envy of the nation, today our state government fails the people of California, and it fails the men and women who have given their careers to its service.

Today, California is a step behind. The current fiscal crisis is only the most obvious and pressing example of the problems in our state government.

- The state's organizational structure is chaotic and cumbersome. It is the product of incremental changes made over the last five decades without regard to the need for coordinated leadership or management and without thinking about how the changes might interfere with effectively serving the people.
- Our management systems are outdated and ineffective. They don't provide management with the most basic information in a timely fashion.
- We have programs whose time has come and gone, but still they linger on, wasting valuable taxpayer dollars.
- We face a potential human capital crisis as more than a

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third of our state employees become eligible for retirement in the next five years.

- In the nation's most technologically advanced state, our government's basic systems are outmoded at the moment when the world is being connected by fast, efficient networks.

California is not alone in facing monumental challenges in the years ahead. All state governments confront a growing demand for services, increasing costs, revenue problems and growing taxpayer dissatisfaction. The issue confronting California state government in the 21st century is whether it can chart a course to meet the needs of its citizens without draining the state of its economic vitality with high taxes and questionable regulations.

We think it can.

We reject a future in which California lags behind other states and fails to achieve its potential. California can once again be a trailblazer, an innovator and a model for the rest of the nation. This report provides a general diagnosis of the challenges facing California state government and a prescription for how to bring about meaningful improvement.

Our prescription for change is tied to seven "vital signs" of a healthy and effective government. These vital signs are similar to issues that good businesses evaluate again and again. They are the questions good managers ask of their organizations, and they are the issues that the people of California deserve to have clearly addressed. The elements essential to fixing California state government include:

- How we serve the people of California.
- How we manage our people.
- How we cut costs and save taxpayer dollars.
- How we make our government more accountable.
- How we manage our business operations.
- How we use the power of technology.
- How we organize our business to realize our goals.

California is great, but we can do better. No more business as usual. We can cure what ails our state government, and we can do it with the inventiveness and boldness for which California is known. We can build something not seen before, the first truly 21st century American government. We



can create a government that is leaner without being meaner; a government that supports the state's economy and does not hold it back; and a state as innovative and creative as the people it serves.

To achieve this future, however, we must chart a new course, a course that serves our children and grandchildren, as well as ourselves.

These recommendations provide a prescription for change that is essential if California state government is to regain its former role as a leader among the states.

Although these recommendations alone will not return the state to its traditional role as a national leader, they set out a clear vision—a road map—for recapturing that leadership.

It won't be easy to accomplish the transformation proposed by the California Performance Review, but we can do it. We can give Californians the government they deserve: The best government in the world.

We must act, and we must act now.

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The California Performance Review

"We have multiple departments with overlapping responsibilities. I say consolidate them. We have boards and commissions that serve no pressing public need. I say abolish them. We have a state purchasing program that is archaic and expensive. I say modernize it. I plan a total review of government—its performance, its practices, its costs."

Governor Schwarzenegger

WE CAN BEGIN
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Governor Schwarzenegger has addressed the immediate budget crisis facing our state, but California's fiscal outlook still shows signs of ill health. A recovering state economy will take care of a portion of the problem. Still, a budget imbalance is a symptom of more fundamental ills. Like a recurring disease, the state's budget woes will persist until dramatic and fundamental changes are made.

When governments face budget problems, they typically resort to cutting services or raising taxes. Too often, attempts to cut services are random and unfocused. Too often, they don't last. California is a growing and diverse state, and state programs must meet the needs of Californians.

The other tactic, raising taxes, doesn't make sense today. The cardinal rule of medicine is: First,

do no harm. California's economy is recovering, and government should not limit the ability of the state's people and businesses as they work for a better future. Private investment will help the state over the next several years. Californians expect the government to get its own house in order before dipping into their pockets.

The real problem is that the choice between higher taxes and cuts in spending is no choice at all. The excess in government isn't necessarily in any individual program. It can be found everywhere within the structure of the government—built not into what government does, but how it does it.

There's a better way. We can begin to eliminate the fat within the government, but we need to go a step further—we need to make

permanent changes in how the state does business. Shedding the problems with the budget is like losing weight. You can struggle to lose pounds, but if you don't change your eating habits, the weight will come right back. If government isn't fundamentally changed, it will continue to experience the boom and bust cycles of spending and taxing with which Californians are all too familiar.

This is the mission of the California Performance Review (CPR). The Governor created CPR to bring him recommendations on how to fix what ails California government. And he asked CPR to go a step further: He wanted to create a state government able to meet the challenges of the 21st century. The concept is simple. A 21st century state government should be:

- Innovative
- Responsive
- Compact
- Open and accountable
- Performance-based
- Attuned to customers and employees
- Productive
- Pro-economy.

By making these principles part of every aspect of government, we will cure the basic ills California's government faces today.

To complete its work, the CPR assembled a team of more than 275 state workers, academics and public policy experts. The staff was divided into 14 teams. These teams examined the key functional areas of government as well as issues that cut across all government operations and functions (Exhibit 1).

EXHIBIT 1

CALIFORNIA PERFORMANCE REVIEW

Major Review Areas

Functional Teams	Cross Cutting Teams
Health and Human Services	Information Technology
Education, Training and Volunteerism	Procurement
Public Safety	Personnel Management
Resource Conservation and Protection	Customer Service
General Government	Budget and Revenue Maximization
Infrastructure	Intergovernmental Relations
Corrections	Financial Audit

This report summarizes the results of CPR's recommendations, and accompanying volumes detail all of the CPR findings. In total, the CPR is making more than 1,000 recommendations for the Governor's consideration covering 280 issue areas.



Implementing even a fraction of these recommendations will dramatically improve the performance and productivity of California's state government.

The recommendations of the 14 CPR teams were combined into seven topical areas as shown in

Exhibit 2. These recommendations can help the state solve its pressing fiscal crisis. While not all of the CPR's recommendations are intended to cut costs, many do. Total savings found by the Performance Review teams amount to \$32 billion over five years.

EXHIBIT 2

FISCAL IMPACT OF CPR RECOMMENDATIONS

Section	Fiscal Year 2004-2005		Five-Year Total—All Funds
	General Fund	Other Funds	
General Government	\$270,250,000	\$49,918,000	\$12,437,970,000
Health and Human Services	\$815,000	\$1,139,000	\$4,918,120,000
Education, Training and Volunteerism	\$133,876,000	\$54,554,000	\$4,123,748,000
Infrastructure	\$56,087,000	\$24,388,000	\$3,363,243,000
Resource Conservation and Environmental Protection	\$2,204,250	\$5,938,750	\$349,631,000
Public Safety	\$0	\$1,200,000	\$7,600,000
Statewide Operations	\$218,132,000	\$222,626,000	\$6,405,768,000
GRAND TOTAL	\$681,364,250	\$359,763,750	\$31,606,080,000*

Source: California Performance Review.

* Five-year General Fund savings and revenue total \$10.8 billion.

Customer Service: The Extra Mile

“There are no traffic jams along the extra mile.”

Roger Staubach

CPR Diagnosis

- **Statewide customer service standards don’t exist.** Customer service takes a backseat to other issues.
 - **Services are not readily accessible.** The state does not employ the most modern customer service technologies.
 - **Programs are designed for the convenience of government.** The state designs programs from a bureaucratic perspective instead of a consumer perspective.
 - **Coordination with local government is poor.** Many services are delivered by our partners in local government, but we do a poor job of collaborating with our partners.
-

Making state government work better for Californians is a central theme of CPR. All of the recommendations in the report are directly or indirectly about customer service. But there are a number of changes the state can make that specifically address how the government interacts with the people.

Customer service is at the heart of successful businesses in America.

There are simply too many options available to customers today for businesses to be anything less than efficient, friendly and available. Government, though, has few competitors for many of the goods and services it provides. Government frequently forgets to serve the people first. That is a mistake. As management expert Peter Drucker said: “The single most important thing to remember

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Prescription for Change

- **Give customers of state government a voice—and a choice.** That means setting standards and listening to the people who use our services.
- **Make access easier for Californians.** Providing better access starts with improving our services and particularly our use of modern technology.
- **Focus on what the customer needs, not what the government needs.** That means thinking in terms of the main places people come in contact with government and doing our best to improve the experience.
- **Work with local government.** To succeed in coming years, the state must forge a close relationship with local government in California. Communication is the place to begin this process.

about any enterprise is that there are no results inside its walls. The results of a business are a satisfied customer.”

Too often, state employees come to believe their primary customers are the Legislature, elected officials or various interest groups. They forget that their primary mission is to help and protect Californians—the taxpayers who are their true employers and ultimate customers.

Improved customer service should go hand in hand with a new structure and focus for our government. California government has traditionally been designed for the convenience of the people who work in it rather than for the people it is meant to serve and who pay for it.

Set Some Standards

It is ironic that California law requires cable television operators to establish customer service standards and to publish them regularly, yet California government, as a whole, does not. Many governments around the world have found that setting customer service standards, publishing them and continually reporting on how they are met is the key to changing the face of government. CPR believes that California should immediately take a number of steps in the customer service area.

In 1993, the federal government began to establish and implement customer service standards, customer surveys and customer service plans. All executive



departments and agencies that provide significant service directly to the public were directed to take the following actions:

- Identify the customers who are, or should be, served by the agency;
- Survey customers to determine the kind and quality of services they want and their level of satisfaction with existing services;
- Post service standards and measure results against them;
- Benchmark customer service performance against the best in business;
- Survey front-line employees on barriers to, and ideas for, matching the best in business;
- Provide customers with choices in both the sources of service and the means of delivery;
- Make information, services and complaint systems easily accessible; and
- Provide means to address customer complaints.

The order creating the standards encouraged federal agencies to provide customer service training to employees who directly serve customers. The order also directed agencies with high levels of public

contact to publish a customer service plan within one year.

Various states have followed suit, finding new ways to listen to citizen needs and make concrete changes in how they perform their duties with their customers in mind.

Here in California, the Franchise Tax Board has developed a strategic plan that identifies customer-centered service as its number-one goal. This goal has been communicated to individual employees and has been incorporated as a performance measure for the board's Collection Call Center employees. For example, an FTB Collection Call Center team has identified what the customer expects from them—courteous, professional and flexible service, as well as effective problem solving. The team has developed a customer service evaluation form used to evaluate its interaction with customers.

Since February 2004, the California Department of Motor Vehicles (DMV) has reduced wait times from as high as six hours to a statewide average of 30 minutes within its 90 major field offices. The department accomplished this by identifying and adopting the best customer service practices that were in place at outstanding field offices.

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All California state government agencies should adopt similar customer-focused approaches in their strategic and budget planning. Customer service must be a strategic goal of each department and customer satisfaction must be continually assessed to determine how well a department is performing. Each department's strategic plan should address identified deficiencies in customer service.

Action: *The state should establish a statewide customer service system that requires all state agencies to develop, publish and report on customer service standards, and reward those people in government who provide outstanding customer service.*

We should require agencies to seek feedback continually from their constituents about the quality of service they are providing and ways to improve their business practices.

Improve Access to Government

It is not easy for Californians to contact state government offices and quickly and efficiently find what they're looking for. According to MCI, one of the contractors for the state's telephone contract, there are more than 1,400 toll-free telephone numbers operated by state agencies that use the contract. This number does not include universities, local governments that

use the state's telephone contract or state agencies exempt from using the state's contract. Thousands of local telephone numbers for state government also are in the "blue pages" of California telephone books, and an undetermined, but presumably large, number of calls are handled outside the toll-free arena.

The state has done little to assist the public in contacting state agencies, or to help the public identify which state agencies provide the services they need. The information that does exist has never been coordinated. For example, the last edition of the California state telephone directory, which is almost four years old, has a section with listings by agency or department and another section with an alphabetical listing of employees who choose to be listed and is only used among state agencies and not distributed to the public.

An online directory is available through the California Web portal (www.ca.gov). There is, however, no easy way to navigate it, and there generally is no link to it from most state Web sites. Like the state telephone directory, it lacks any listing organized by services or areas of interest. The agency index simply directs the user to the agency Web site, which often has no telephone contact information.



The employee index offers users the ability to find telephone numbers for specific employees; however, there is no indication of which employee to contact for questions about specific programs or services.

California has four state operators who work from 8:00 a.m. to 5:00 p.m. Monday through Friday, excluding holidays. The number for the state operator is listed in many major telephone directories. Operators take between 700 and 1,000 total calls per day on a wide variety of topics, from both state agencies and the general public. Their function is referral, giving telephone numbers to callers and connecting them. Considering the large number of telephone numbers used by the state and the limited number of staff to direct callers to the right place, accessing state government can be difficult and frustrating.

Such frustration is not limited to California. During his campaign for mayor of New York, Michael Bloomberg expressed frustration that New Yorkers had to sift through 14 pages of telephone numbers to find city services and information. As a result, one of the top priorities for his new administration was to make contacting city government easier by using a single telephone number—311. Forty call centers and several help lines for city

agencies were combined into the 311 number, which has a service center staffed by more than 200 city employees, with an overflow center staffed by up to 200 more contract employees. Call centers offering highly specialized information, such as tax information during tax season, were not included in the 311 number since those calls can take up to 30 minutes or longer.

In its first year, New York City's 311 service center fielded 6.5 million calls. The city is expecting that number to jump to between 10 and 12 million calls per year. As of April 2004, the center was averaging about 35,000 calls per day.

Technology currently exists to allow call centers to operate in either a "real" or "virtual" sense. Call center operators may all be housed under one roof or they may be in several locations, including their homes, and still operate efficiently. Database software also allows separate call centers and locations to share data and manage call load among multiple centers. Call centers often experience peaks and valleys in volume at different times of the year, month or even day. The ability to spread call volume among call centers and operators makes for greater efficiency.

Most call centers use Interactive Voice Response (IVR) systems to

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EXHIBIT 3

FOUR MAJOR STATE CALL CENTERS

	EDD— Unemployment Insurance	EDD— Disability Insurance	Motor Vehicles	Consumer Affairs	Totals
Number of Staff	900	200	475	35	1,610
Annual Cost	\$60 million	\$10 million	\$28 million	\$3.7 million	\$101.7 million
Yearly Calls	45 million	8 million	20 million	840,000	73.8 million

Source: California Performance Review.

automate routing. In the best call centers, these IVR systems are invaluable for getting callers to the right person as quickly as possible. They can even automate certain routine tasks, such as giving callers an account balance. In many instances, however, IVRs make it difficult or impossible for callers to reach a live person, or will substitute recorded information for human interaction when it may be inappropriate to do so.

Other technologies exist to allow some automation of call taking. Voice recognition software, for example, allows an interactive “discussion” with the software to determine the caller’s needs. The software allows the caller to be directed to the right entity, to leave voice mail or instructs the caller to call back.

The CPR identified more than 20 call centers operated by or for California state agencies. Without a thorough audit, however, it is impossible to know exactly how many there are, or how much money is spent on them each year. CPR looked at three departments with four call centers that handle a large volume of calls per year to make some basic assumptions. These operations alone cost the state more than \$100 million per year and employ 1,600 people. The centers and related information is shown in Exhibit 3.

Action: *The Governor should direct the Department of General Services to establish a central California Information Center to improve information and service to Californians by integrating most existing call centers operated by the state.*



A Gateway to State Services Online

The California Portal is California state government's central website. It began operating in January 2001 and was an instant hit, setting a new standard for government websites. The California Portal's development team received numerous awards for its innovative features. Its designers envisioned providing a single point of access to all state, local and federal government services, where users can access specific government services without having to personally navigate the bureaucratic maze of overlapping city, county, state and federal agencies (Exhibit 4).

The California Portal was initially brought online with fewer than ten percent of state departments participating. The project team purchased and built a technical infrastructure at the state's Teale Data Center expecting to house and support all of the state's departmental websites. At the outset, it seemed like the California Portal was on its way to becoming exactly as advertised: a single point of entry to many California state and local government services, a user-friendly path to access information and services.

Soon after it began operation, however, the California Portal Project had difficulties unrelated to its services. Financial and staffing

support for the California Portal dwindled amidst controversy. Technical support for the portal was transferred to the Teale Data Center staff in January 2004. When asked about the status of the California Portal in April 2004, Teale Data Center management indicated its staff did not have the technical expertise necessary to fully support the portal, and there was a similar lack of expertise among vendors responsible for servicing its software.

The problems facing the California Portal are not related to the original vision of creating a single online gateway for California state government, however, the problems are holding back even a semblance of a chance of realizing that vision. The information

EXHIBIT 4

THE CALIFORNIA PORTAL



IN 2004, THE DMV
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accessible through the portal is not being updated. For example, there are obsolete references (links) to information on the portal's website. When Internet users "click" on obsolete links, they receive a message that the website or text referenced on the portal no longer exists.

The goal of providing seamless Internet access to all state and local government agencies in California remains unfulfilled. Many state department websites still reside outside the portal's computer systems and are, therefore, unavailable to the portal's search tool. This makes the portal less useful.

Moreover, the technology underlying the portal is outdated in the rapidly changing world of the Internet. Portal technology has advanced rapidly since 2001. The Portal has vast and as yet unrealized potential. It should be upgraded to make it a true gateway to California state government.

Action: *The state should update and expand the California Portal. The portal should be redesigned to make it a central gateway for all state agencies and for units of local government.*

Action: *The Governor should direct state departments to keep their websites updated.*

The text and the links to other websites and information should

be routinely updated and obsolete references eliminated. The state should obtain automated tools to assist in this effort. Improving the accuracy of information accessed through the portal will make it a more useful and reliable tool for the public.

Move Common Services Online

California can see significant improvements in the quality and availability of commonly used services by making them available electronically. In this case, priority should be given to state drivers license renewal and to the state nutritional programs for women and children.

Drivers License Renewal.

Today, the Department of Motor Vehicles (DMV) has 168 standard driver license and vehicle registration field offices throughout California. Field offices provide a wide range of services for Californians, including initial driver testing, vehicle registration and driver license renewals.

In 2004, the DMV expects to renew five million driver licenses. Sixty percent (three million) of these drivers are eligible to renew their licenses by mail if they meet certain age and driving standards. While two million drivers choose this option, nearly one million drivers who are eligible to renew by mail continue to visit their field office to renew their licenses. This adds to



the field office workload and to customer waiting time. The DMV already offers online registration of vehicles. The same processes can be used to deliver online drivers license renewal services.

Eleven other states have initiated programs in which drivers may renew their licenses online: Georgia, Louisiana, Mississippi, Nevada, New York, Illinois, Tennessee, South Carolina, Texas, Utah, Virginia and the District of Columbia. In addition, Idaho, New Mexico and Washington are in the process of adding online renewals. The results have been favorable. Utah, for example, renews 28 percent of its drivers licenses online. Virginia estimated that 10 percent of all its transactions were accomplished online. An online transaction saved 20 percent of the staff time needed for processing an application sent in the mail. Other states reported similarly favorable results.

The DMV considers online renewals to be good customer service rather than a cost-savings opportunity. Other states' experiences, however, indicate that an online renewal program will be popular and will save money for the state over time. Tennessee, for example, was able to promote growth of its service by 164 percent in three years. If California's online drivers license renewal service

receives acceptance similar to Utah's services, eventually, 840,000 California drivers would renew online. Those eligible for the mail renewal process who continue to renew in the field office create much higher costs for DMV. Based on DMV cost figures, if 280,000 of the one million drivers who renew at a field office can be persuaded to make the renewal payment on the Web, in four years, the savings would reach \$2 million. As continued promotion changes drivers' behavior, the program could eventually save more than \$6 million yearly.

More importantly, putting drivers license renewals online would bring one of the most common state functions touching most Californians into the digital age of customer service. That strategy is broadly supported by consumers, according to the findings of a survey reported by the Pew Foundation which tracks the impact of the Internet on America. In a 2002 report, the Pew Foundation asked how the public was most likely to contact government for information or services. Thirty-nine percent of all those questioned said they would go online. If the respondent was an "Internet user," 58 percent said they would go online, in contrast to 10 percent of "non-Internet users." The non-Internet users' preferred mode for contacting government

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offices was the telephone. The same study consistently ranks California among the highest in all states for Internet use, which means that California residents will likely use online access to government at or above the expected range for citizens of other states.

Action: *The California Department of Motor Vehicles should allow eligible drivers to renew their drivers' license online.*

WIC Improvements. The Women, Infants and Children Supplemental Nutrition Program (WIC) is a 100 percent federally funded nutrition education and supplemental food program for low-income pregnant, breastfeeding and postpartum women, and children under the age of five who are a nutritional risk.

WIC is intended to promote proper nutrition as a way to decrease the risk of low birth-weights or other child-birth complications and to improve the health of children during the critical early years of their lives. A large part of this program is providing eligible families with access to foods that are high in protein and/or iron, including foods like peanut butter, beans, milk, cheese, eggs, cereals, infant formula and juices.

WIC is a short-term program, and most people receive benefits for

about two years. To determine eligibility for the program, "low income" includes those with up to 185 percent of the federally defined poverty level of income. The income for a family of four is about \$33,485 in annual income.

The California WIC program receives about \$900 million annually from the federal government. It receives more than \$200 million more through rebate contracts with manufacturers of juice, infant formula and infant cereal. In total, the program served just less than 1.3 million Californians in Fiscal Year 2003–2004.

WIC benefits are delivered manually at the local level through contracts with 82 local county and private nonprofit agencies that operate 650 local WIC centers. Clients receive vouchers at the WIC centers that can be redeemed for food items at 4,189 WIC-approved grocers. In Fiscal Year 2002–2003, California's grocers redeemed about 69.3 million paper vouchers under the program. They, in turn, processed the vouchers like a check, depositing them with a local bank, which in turn redeemed the vouchers with the State Treasury.

Obviously, a huge amount of administrative expense goes into this laborious manual process. The state WIC program does not have specific data on the exact amount of administrative costs associated with the program. These costs



include expenses such as purchasing paper check stock, printing, storing, transporting, processing and destroying vouchers and performing extensive anti-fraud activities. WIC does provide annual information to the U.S. Department of Agriculture for administrative costs for the combined activities of voucher production and distribution and eligibility determination. In Fiscal Year 2002–2003, this totaled \$88.3 million.

Moreover, the vouchers present potential problems for recipients. They must travel to distribution centers to receive benefits, and the paper vouchers are always subject to theft. The use of the vouchers in stores sets the recipients needlessly apart from other shoppers, according to some critics of the paper-based WIC and Food Stamp programs.

California and most other states have made significant progress in transferring Food Stamps and other human service benefits programs to a card-based technology, a process known as electronic benefits transfer (EBT). EBT allows recipients to receive their benefits on a card that looks and acts like a credit card. This approach makes the use of the benefits a more private matter and reduces the potential for theft or fraud. It also can greatly reduce the physical handling of vouchers and other processing requirements,

thereby creating the potential for cost savings to the state that can be directed into helping more eligible Californians.

Action: *The Women, Infants and Children Supplemental Nutrition Program (WIC) benefits should be provided through electronic benefits transfer (EBT) card technology.*

Once it is in full operation, a WIC EBT program will save the state about \$17.5 million a year. These savings would allow 25,000 more Californians to be served by this program.

Services for California Businesses

Access to state licensing, permits and registrations is important for small business, the backbone of the state's economy. According to a 2002 report by the California Small Business Reform Task Force, small businesses represent 98 percent—or 2.5 million—of the companies in the state, employing more than 50 percent of the workforce and generating more than half of the gross state product. Streamlining the business license and permit process would, therefore, have a significant impact on California's business climate.

Right now, people wanting to do business in California must obtain necessary permits and licenses, register their businesses, report information and pay taxes. A person wanting to open a beauty

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Plain Language, Please

The CPR report is full of complex recommendations dealing with complex issues. However, one idea stands out for its simplicity. It is simply a recommendation that agencies write material for the public in clear, non-technical language.

There is already a state law to that effect, but we found it isn't enforced. Of course, at times the law also requires legal precision, but often, information isn't conveyed because of the language that's used. A sample of some of the "bureaucratese" found on state websites:

"No person shall exercise the privilege or perform any act which a licensee may exercise or perform under the authority of a license unless the person is authorized to do so by a license issued pursuant to this division."

* * *

"No meeting shall be conducted with less than a majority of all participating members, which represents a quorum, and any votes of the Authority will be by a majority of that quorum."

* * *

"The state agency partners involved in the Unified Program have the responsibility of providing technical assistance to the local agencies implementing the program. Additionally in areas where a Designated Agency is not implementing a portion of the program, the state agencies are responsible for the implementation of that portion of the program."

* * *

"From policies that better meet the developmental and emotional needs of foster children to assisting relatives in becoming guardians through financial and support services to improving the capacity of the child welfare workforce to serve children and families, these efforts have been significant and were often driven by the foster youth representatives, who were members of the Stakeholders Group, who could speak from their own experience."

* * *

"A comment must be in typewritten form and must be clear and permanently legible. A comment must identify the determination that is the subject of the comment by referencing the deadline for submitting comments."



salon in Sacramento, for example, must register or obtain permits and licenses from eight different state entities, and someone wanting to open a gasoline service station must register or obtain permits and licenses from nine state departments.

From a business owner's perspective, state government is not a collection of independent agencies, but rather one "state government." As a result, business owners should be able to expect seamless services from the state. Business owners in California are also demanding online services from the state equivalent to those offered in the private sector, and they want a customer-centered approach that provides timely, useful and accurate information.

California has previously implemented programs to improve state services to small businesses. The Small Business Regulatory Reform Act of 2000 created one recent program. It established a Small Business Advocate in the Governor's Office of Planning and Research and required each state agency to designate at least one person to serve as a small business liaison. Creating the Small Business Advocate was a good idea, but it did not go far enough in removing the obstacles small businesses face.

Other states have improved their services to small businesses by creating a consolidated state

business license and permit process. For example, in 1980, the state of Washington created a Master License Service (MLS) to provide a convenient, accessible and timely one-stop system for business licenses and permits. The MLS developed one master application for the most commonly acquired business licenses and permits. The Washington MLS estimates that its master application is used to issue all required licenses and permits for about 80 to 85 percent of businesses in the state.

Washington's MLS is comprised of an intake unit, a call center and a business liaison section. The intake unit processes initial applications and renewals, maintains records and collects associated fees. The call center handles all telephone, e-mail and Internet inquiries and distributes forms, informational booklets and brochures. The business liaison section provides technical assistance and is responsible for tracking changes in licensing and permit laws at the state and local levels, as well as any changes in fees. The system is available 24 hours a day and business owners can use it to obtain or update their information electronically.

Some consolidation of California's state license information systems is already under way. California's Department of Consumer Affairs

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BUSINESS LICENSE AND
PERMIT PROCESS.

processes the bulk of California's professional licenses and is working to combine all of its independent information systems into one centralized system. According to the Department of Consumer Affairs, additional enhancements to accommodate a master application for licenses and permits issued by the department could be built into the new system with little or no additional cost.

This service could be funded with an MLS application fee and a periodic renewal fee.

Action: *The state should create a master license service within the Department of Consumer Affairs.*

Action: *The Governor should appoint a third-party business advocate to provide oversight of services to California businesses with licensing and regulatory issues.*

Focus on Service

State government does not do enough to focus on customers today. While there are some state departments that have separate customer service units, there is no customer service job classification used across state agencies. There are more than 4,000 job classifications used in state government, but only two have the words "customer service" in their title. Yet there are departments, such as the Employment Development

Department, the Department of Health Services, the Department of Motor Vehicles and the Department of Consumer Affairs that have millions of face-to-face, telephone, e-mail and other written contacts with the public each year.

A few departments use specialized classifications to answer incoming calls from the public and to work at public counters, but most use clerical, program technician, and analyst classifications. The employees in these classifications often possess enough program knowledge to perform their job duties adequately, but may not have the skills necessary to provide customer service in an efficient manner.

With the state budget deficit and staffing shortages that California is currently experiencing, it is more critical than ever to have competent and skilled customer service professionals on the "front line." Despite the limitations, we believe California needs to do more in this area. These front-line employees are usually the first and sometimes the only contact the public has with government. The ability of these employees to effectively assist the public directly affects whether government is perceived positively or negatively. According to Laura French, a principal with Words Into Action, Inc.: "People call in a panic mode. The customer service rep needs to

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comfort and calm the caller. The caller needs to feel that he or she has called the right place and is talking to an expert who can solve their problem.”

Mark Wallace, vice president of DCI, an organization dedicated to information technology education and consulting, stated, “...customer support in government needs to quickly become more proactive, customer-focused, efficient and effective.... The responsiveness of front line support to customer’s expectations is the key to success in the public sector. This need continues to be amplified as customer expectations continue to soar.” The same is true for Californians who expect to receive better customer service from government, which increasingly requires qualified state employees to interact with the public. Such interactions occur every day in a variety of settings such as call centers, e-mail, correspondence and in person.

It is not only good government to serve the public effectively and efficiently, it is good business. A survey of consumers conducted by Harris Interactive in 2000 indicated that a company’s economic status is directly tied to effective customer service. The findings also stress the importance of resolving a customer’s service issue on the initial contact.

While government is generally not in the business of making a profit, it must not waste its limited resources by being ineffective or unresponsive. Multiple interactions with government to resolve a problem, such as repeated telephone calls, letters and face-to-face visits cost both the public and the government. Each contact has a cost, and the longer it takes to resolve an issue, the higher the cost. For example, three state agencies with high call volumes, answer more than 70 million telephone calls per year at an annual cost of about \$100 million. If even a small percent of these calls are attributed to “call backs,” because the issue was not resolved during the first contact, the additional costs are significant.

The private sector has recognized that excellent customer service is critical to the survival and viability of the organization. PriceWaterhouseCoopers surveyed 427 CEOs of fast-growing companies and found that “virtually all CEOs of the nation’s fastest growing companies (87 percent) single out quality of customer service as being very important to the growth of their business over the next 12 months.”

The importance of good customer service and the role of the customer service representative have been gaining importance in the public sector. Many government

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The Stephen's Kangaroo Rat



A lack of coordinated planning among state, federal and local governments results in conflicts between development projects and natural resource conservation. The results can be frustration, delay and higher costs. The tale of the Stephen's kangaroo rat in Riverside County is an example of how the process can work successfully. CPR used this and other examples—both good and bad—as a basis for a series of recommendations for better coordination and integration of environmental decision-making in the infrastructure planning process.

The Stephen's kangaroo rat story involves road and housing projects in Riverside County. In California, transportation projects require multiple federal and state agency reviews and permits. The median time to process environmental documents on major highway projects is 4 1/2 years. On average, it takes 13 years from initial planning to completion to open a new highway.

In this case study, Riverside County was blocked from completing housing and transportation projects by successful efforts to address federal concerns about one protected animal species in the area, the Stephen's kangaroo rat. County taxpayers spent \$42 million in local funds to secure 41,000 acres for habitat, yet the other 145 affected species in the area were not addressed. As a result, the time-consuming state and federal environmental review processes failed to accomplish their very own legal intent, which is to conduct comprehensive habitat protection.

Officials in Riverside County adopted a different approach. They developed a comprehensive multi-species habitat conservation plan along with a Riverside County General Plan update and two major transportation corridor studies.

The Riverside County Integrated Project was scheduled to coordinate federal and state agency reviews. Three years later, a comprehensive habitat plan covering 146 species was adopted and approved by the federal agencies. Local developers now have a streamlined environmental review process and will know in advance of land investment where they can build. A habitat reserve of 500,000 acres is set aside. Two transportation corridors that will ease the commute to jobs have been approved for the environmental review phase, and the U.S. Department of Transportation has designated the projects for streamlined approval.



agencies across the country use a customer service representative classification. Examples of this include the states of Arizona, Ohio and Idaho; and the cities of Bellevue, Washington; Alexandria, Virginia; and Alameda, California.

It is time for California state government to act upon what the private sector and many other public agencies have come to recognize: customer service and the customer service profession are key ingredients to an organization's effectiveness. A statewide customer service job classification should be developed and used across state agencies. This would help to ensure that skilled employees are placed in the critical positions that deal directly with the public. This is a small, but important, step in changing California's approach to providing services to its citizens. It demonstrates a commitment to—and focus on—providing the right information to our citizens at the right time and in the right way.

Action: *The Governor should direct the California State Personnel Board to establish a Customer Service Representative statewide classification to be used by all state agencies.*

Cooperating with Local Government

Local governments are both customers of state government and partners in delivering

services to the people of California. As such, intergovernmental relations are particularly critical and will only become more critical in the years ahead.

Governmental relations in California involve several levels of local governments, including cities, counties, regional governments and special districts. In addition, government-to-government relationships exist at the state level with bordering states, nations, tribes and the federal government.

The Governor's Office of Planning and Research serves local governments in two ways. First, it is the state point of contact for local government review for compliance with the California Environmental Quality Act. Second, it is responsible for the analysis of state legislation that affects local governments.

Recent negotiations on the state budget pointed to the need for a local governmental relations mechanism to open a clear channel of communication amongst different levels of government. A representative of the administration who has other duties in addition to overseeing local government issues facilitated this negotiation.

Because of the importance of coordination, cooperation and consultation among all levels of government, it is vital for local

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governments to have a contact within the Governor's Office to maintain good working relationships and to address issues as they develop.

Action: *The Governor's Office should create a Local Government Relations Office to fortify relations with all levels of government.*

Californians Helping Californians

Californians are a giving, service-oriented people. Whether they are coaching Special Olympians, mentoring elementary school students in reading or taking Scouts camping, our state's citizens are willing to share the benefits of living the "golden dream by the sea." Many people arrive in California with high hopes for the future. Through their initiative and rugged determination, they succeed in finding their dreams. Their successes, in turn, imbue them with a desire to help those who are less fortunate or who are in need.

Given the pressing challenges facing the state, Californians should be called to action to restore the state's strength, vitality and prosperity—making it the best place in the nation to live. The California Performance Review recommends that the Legislature remove statutory impediments to

volunteerism to position the state to lead the nation in civic participation and volunteerism.

Action: *The state should establish a central clearinghouse, the California Service Corps, to coordinate volunteers and match them with the needs of government, schools and charitable organizations.*

Action: *The state should remove legal barriers to volunteering and civic participation in California.*

According to First Lady Maria Shriver, "Every Californian can serve their state. Every Californian can strengthen and support this state in invaluable ways. The California Service Corps wants you—each and every one of you—to be proud, to bear responsibility for your state. As Gandhi said, 'The best way to find yourself is to lose yourself in service to others.'"

Good People, Good Government

"Surround yourself with the best people you can find, delegate authority and don't interfere."

Ronald Reagan

CPR Diagnosis

- **California state government faces a human capital crisis.** In the next five years, the state will lose 34 percent of its current workforce.
 - **The personnel system is fragmented and divided.** Personnel issues are split between the State Personnel Board and the Department of Personnel Administration.
 - **Recruitment efforts for new workers are a shambles.** The state has no systematic program to recruit the best and the brightest.
 - **Training for existing workers is sporadic.** The state does not strategically invest in improving the knowledge, skills and abilities of its workers.
 - **Employee evaluations are ineffective.** The state does not routinely evaluate the performance of all employees and in those evaluations does not set concrete performance goals.
-

ACCORDING TO THE STATE PERSONNEL BOARD, 34 PERCENT, OR MORE THAN 70,000 STATE WORKERS, WILL BE ELIGIBLE TO RETIRE IN THE NEXT FIVE YEARS. SOME INDEPENDENT STUDIES HAVE ESTIMATED THAT THIS NUMBER COULD BE MUCH HIGHER, RANGING AS HIGH AS 49 PERCENT, OR AS MANY AS 100,000 WORKERS.

Numerous reports have been written about the impending "human capital crisis" that will affect the nation's workforce in the next several years. The crisis stems from the wave of retirements expected as the "baby boom" generation reaches retirement age.

By one estimate, there are more than 70 million baby boomers in the workforce versus about 40 million in the generation following them.

The phenomenon affects the public and private sectors, but



Prescription for Change

- **Fix the personnel system.** Our current system is outmoded and produces as many conflicts as it solves.
- **Plan for future workforce needs.** Rapid change in the workforce in the future means a need for a government-wide strategy.
- **Recruit skilled workers for the future workforce.** To work effectively and cost efficiently, we must recruit and retain the best workers California has to offer.
- **Give workers the skills to do their jobs.** The need for life-long learning and skill development is a common theme in modern business. It should apply to state workers as well.
- **Hold workers accountable for their work.** Our employees need to know what to do and how to do it. Then they should be held accountable for their performance.

government will be hardest hit because on the whole, government workers, including California's, are older than those in the private sector. Moreover, in California, various labor agreements have lowered the eligibility age for government workers to retire.

According to the State Personnel Board, 34 percent, or more than 70,000 state workers, will be eligible to retire in the next five years. Some independent studies have estimated that this number could be much higher, ranging as high as 49 percent, or as many as 100,000 workers. The "age bubble" in the workforce is clearly shown in Exhibit 5, which shows a distribution of state employment by age bracket.

The "age bubble" is traveling quickly through the state's workforce. The baby boom age bubble is reaching retirement age, and California should be prepared. If we wait to act, we will find state government "hollowed out"—its best and most experienced workers gone with no plan to deal with their absence or build a well-qualified workforce for the future. The result could well be a poorly structured hiring binge or the further deterioration of state services in those areas where we simply don't have the people to make the engine of government work.

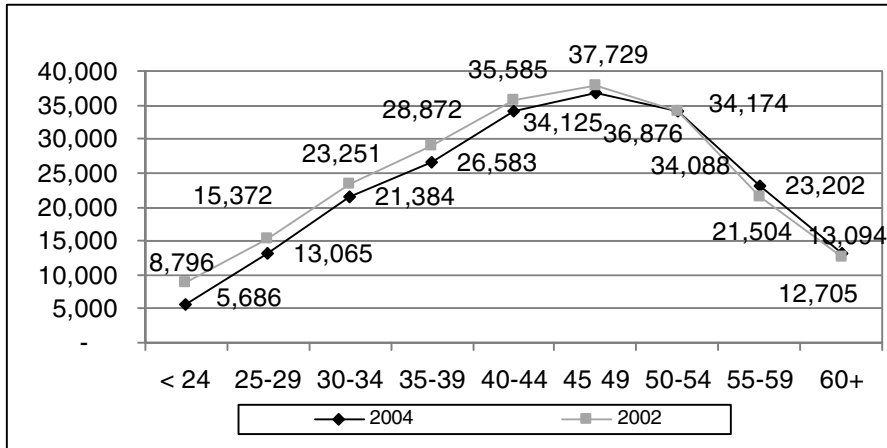
Fix the Personnel System

California's human resource management system is split



EXHIBIT 5

CALIFORNIA STATE EMPLOYEES BY AGE GROUP, 2002 AND 2004



Source: State Personnel Board.

primarily between two control organizations, the State Personnel Board (SPB) and the Department of Personnel Administration (DPA). This division has led to jurisdictional disputes, as well as delays in services to client state departments.

Created in 1934, SPB was charged with overseeing the state's civil service system and ensuring that it is free from political patronage. In this role, SPB enforces the merit system, and its five-member board hears merit-related appeals (for example, examination and disciplinary appeals).

Over a period of several decades, labor unions representing state employees sought a formal and exclusive process for negotiating the terms and conditions of

employment. The enactment of the Dills Act in 1977 and the creation of DPA in 1979 established the modern context for negotiations between the unions and the Governor over wages, hours and working conditions for state employees. Today, DPA oversees collective bargaining and hears non-merit statutory appeals and contract grievances.

This dual management system has caused confusion about SPB's and DPA's roles. They often have different responsibilities for the same personnel processes, and their roles are unclear to client state departments. The departments do not agree on which areas of personnel are defined by merit law and which can be negotiated at the bargaining table. For example,

SPB is responsible for creating classification plans, but DPA sometimes revises classifications during collective bargaining, without SPB's input. The two departments also disagree on transfer rules.

SPB estimates it spends approximately 50 hours a month on litigation with the DPA. Over a five-year period, DPA estimated it spent nearly 1,100 hours on litigation against SPB. This senseless conflict should be eliminated. The goal is not to reduce anyone's rights but to make human resource management more efficient and effective.

Action: *The Governor should seek legislation to consolidate the Department of Personnel Administration and the non-constitutionally mandated functions and staff of the State Personnel Board into a single entity.*

Planning the Future Workforce

The changes in organization and management CPR is proposing offer an opportunity to use our existing workforce strategically. By revamping our organizational structure and employing modern technology, we can work our way through the natural attrition in the labor force and give California a government that is leaner and makes the best use of its employees. We can change crisis

into opportunity—making the government better, our workforce more effective with better skills, while we cut costs.

Right now, the state has insufficient information to estimate the depth of its workforce needs. Agencies make their own recommendations, which are reconciled in the budget process. There is, however, no overall planning for staffing needs. The state makes workforce projections for the various regions of the state, but it doesn't fully grasp what it needs to meet its own workforce demands.

In this case, the state should aggregate and routinely analyze workforce needs by employment category. The periodic shortage of information technology workers has been well publicized nationally, but the data suggest that other job categories, including law enforcement, lawyers and health care workers are also likely to be hit by high retirement and separation rates in the years ahead (Exhibit 6).

The state must decide how to cope with these potential needs—and which are most critical to the state providing services to its citizens. But without reliable information about workforce trends and needs, decisions affecting the state's workforce will not be made in any consistent, coherent way.



EXHIBIT 6

AGE TRENDS FOR SELECTED STATE JOB CATEGORIES 2002 and 2004

	Percent over 50, 2002	Percent over 50, 2004
Agriculture and Conservation	22	28
Office and Allied	32	35
Custodian and Domestic	39	42
Education and Library	62	67
Engineering	30	34
Fiscal, Management, Staff Services	33	36
Legal	47	50
Mechanical and Construction	39	42
Medicine	39	42
Emergency	52	59
Public Safety	24	25
Social Security and Rehabilitation	25	26
Career Executive Appointment	44	67
TOTAL	31	34

Source: State Personnel Board.

Action: *The Governor should establish a centralized unit within the Department of Personnel Administration to plan for the state's future workforce needs.*

Once we have a projection of the overall needs of the state workforce, we should manage the size and shape of the workforce

on an enterprise basis. That is, we can control the growth of the government as part of the state's overall fiscal planning, and using the information about workforce demands, we can direct any hiring that does occur to those places across state government where hiring is most critically needed.

RECRUITMENT IS THE
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PERSONNEL SELECTION
PROGRAM. YOU CAN'T
HIRE THE BEST
EMPLOYEES UNLESS
YOU ATTRACT THE BEST
CANDIDATES FOR THE JOB.

Action: *The state should plan for and manage its workforce on an enterprise-wide basis.*

Recruiting the Future Workforce

According to Carl DeMaio of the Performance Institute, "Successful recruitment in government boils down to a complex formula: get the right people...in the right position...at the right time...with the right skills...to perform the right role...to achieve the agency's mission." Recruitment is the foundation of any personnel selection program. You can't hire the best employees unless you attract the best candidates for the job. Despite its very real and growing importance, this is a step that often receives little attention by government managers.

In 1999, the Little Hoover Commission noted that, "the state does virtually no recruiting in good times or in bad to draw young, energetic graduates from its own university system into its workforce." The state has failed to make even a small investment in recruiting new workers. As a result of fiscal problems in recent years, most state departments have either abandoned or curtailed their recruitment efforts. Those efforts that do exist are sporadic and uncoordinated. Today, the state only considers those candidates who actually seek employment.

At a time when the labor force is dwindling and fewer young people are willing to consider government jobs, this poses a serious problem.

Senate Bill 1045, passed by the Legislature in 2003, requires all state departments to engage in broad and inclusive recruitment for entry classifications. Departments, however, need guidance to carry out this mandate. Instead of developing brief explanatory rules, the State Personnel Board approved a new section of the Merit Selection Manual entitled, "Recruitment for Civil Service Examinations" in September 2003. Despite departments' desire to receive this new section, it hasn't yet been released due to the need for approval from the Office of Administrative Law.

According to Dr. John Sullivan, Professor of Human Resources Management at San Francisco State University, "all recruiting is marketing, and a marketing-based strategy is the foundation of everything we do" in recruiting. The private sector has long recognized this maxim and typically fuses recruiting efforts with advertising and public relations efforts. The state faces stiff recruiting competition from the private sector and federal and local governments. The state must do a better job of highlighting state employment's "selling points." It must use demographic research



and other data to find the best-qualified candidates.

As part of its limited marketing efforts, the State Personnel Board has developed general pamphlets and publications such as "The Road to Employment with the State of California, State Civil Service Employment Information." A separate publication, "Recruitment Sources Directory," provides resource information to all state departments, but it should be expanded and updated regularly.

The current level of resources dedicated to recruiting a qualified workforce is insufficient to meet current or future needs. Occupation- and geographic-specific recruitment materials should be developed to use in conjunction with other recruitment strategies such as advertisements in professional journals, attendance at career fairs and community events. Additionally, the state should develop partnerships with groups whose members have the skills needed in state government, such as health care, information technology and engineers.

Automation should also be used to its fullest advantage, especially for high volume hiring. Increased use of the Internet will enable the state to reach more potential applicants and provide comprehensive information faster and at less cost.

Finally, departments are not using any tools to measure the effectiveness of their recruitment efforts. Today, most of the information on recruitment and retention is anecdotal at best. The state should develop statistical measures on state job recruitment. Only by evaluating what works will state departments realize a good return for their investment of taxpayer dollars to improve recruitment practices.

While the needs of individual departments change from year to year, the state's overall recruitment effort should be consistent and consolidated. An improvement in centralized coordination of these basic human resource functions makes more sense and will help individual agencies. Agencies know best their needs for jobs in department-specific categories. However, recruitment for jobs that are essentially service and support positions, as well as marketing of the state as an employer, is best conducted centrally, thus freeing up departmental staff to recruit for department-specific classes. This is an effective strategy that can produce long-term cost savings.

Action: *The state should establish and staff a centralized state recruitment program to provide leadership and coordination for departmental recruitment efforts.*

TODAY, MOST OF THE
INFORMATION ON
RECRUITMENT AND
RETENTION IS ANECDOTAL
AT BEST. THE STATE
SHOULD DEVELOP
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ON STATE JOB
RECRUITMENT.

CPR also recommends that the state do a better job of recruiting and retaining the best and brightest students coming out of our higher education system. Right now, we are largely failing to actively recruit and employ large numbers of talented college graduates. These individuals typically excel in analytical and problem-solving skills, know and understand modern business technology and can respond to changes in work methods quickly.

As part of this recruitment effort, the state should establish a formal, paid college intern program, and departments should use this tool as a source of talented, well-educated employees. The Department of Personnel Administration should also work with departments to expand the use of the Student Assistant and Graduate Student Assistant classifications and to develop mechanisms to facilitate students' entry into permanent state employment upon graduation.

Placing more emphasis on college recruiting and providing better ways to integrate students into the full-time workforce can help to turn this situation around. With only a modest investment of resources, the Department of Personnel Administration can help state departments hire more productive workers, which even in lean times can benefit the state

through greater productivity for many years to come.

Action: *The state should reestablish a centrally coordinated statewide college recruitment program and provide adequate resources to ensure its effectiveness.*

Give Workers the Tools to Do Their Jobs

Even the best workers can't do their jobs without training and professional development. If we are going to recruit the best workers to replace those we are losing and expect them to be more productive, it is necessary to give the employees the training and clear performance expectations they need to succeed in their jobs.

In a 1999 report, the Little Hoover Commission underscored the necessity of a well-trained workforce when it said, "State policy makers and program managers need to use training programs to improve the effectiveness of their organizations, to support re-engineering efforts and prepare workers for new assignments." To address this need more effectively, the state must improve and coordinate its training programs.

Currently, several departments offer training to state employees across all departments. This training is on essential topics, systems and processes used by all

EVEN THE BEST WORKERS
CAN'T DO THEIR JOBS
WITHOUT TRAINING AND
PROFESSIONAL
DEVELOPMENT.

To gather information and input on California state government, CPR offered a central e-mail box. We received many comments. CPR teams searching for ideas and insights looked at all of the e-mails and answered as many as time permitted. Many were anonymous. One particular group of correspondents was state employees. Below are some of their comments.

“California needs employees who are willing to accept ownership of the problems presented to them and do their best to find a solution. I’m well aware that as an employee, there is no way that I can solve every problem that is presented to me. When I am unable to resolve a problem, I feel that I have a duty to assist my customer in finding either the correct person or department who can help them solve their problem. . . . There are a good number of people that do perform to the best of their ability and are eager to provide help when they can. If that were the case every time, would we have the ‘Stateworker Stereotype’?”

* * *

“The other day I was at a job site assisting a drilling crew out of Sacramento. I was picking up a closure but was told I was going to be delayed. I asked why and was told they had more equipment on site than people.”

* * *

“I will have worked for the State nearly 27 years [as a registered nurse]. We have a severe shortage of nursing personnel especially RNs. Our state hospital meets or exceeds its ‘Salary Savings’ goals by keeping the level of care positions vacant for gross periods of time. Unfortunately, this causes untold amounts of overtime that more than eliminates any supposed salary savings.”

* * *

“Junk the state civil service system, which is too cumbersome and unresponsive. You can’t hire the best and the brightest and retain the good people you have under this system. There are too many sections, branches, units that NEVER talk to each other. Even experienced State employees don’t know how to navigate the system.”

* * *

“Remember Lily Tomlin’s ‘Ernestine’ routine? ‘We’re the phone company. We don’t care. We don’t have to.’ Substitute ‘public employees’ for ‘the phone company’ and you’ll see why taxpayers are fed up. How about this: Every department that deals with the public should have postcards that the consumer fills out and mails to the CPR people regarding the general work ethic and relative efficiency of their encounter, with the names of the employees involved.”

* * *

“I am glad there is finally somebody up there in Sacramento working for us common people.”

The “Stateworker Stereotype”

and Other Stories
of the CPR

IN ADDITION TO PROVIDING
AVAILABLE TRAINING
INFORMATION, A STATE
TRAINING PORTAL COULD
BE USED TO REGISTER
EMPLOYEES FOR ANY OF
THE TRAINING OFFERED
THROUGH THE PORTAL
AND TRACK AGENCY USE
OF TRAINING COURSES
AND EMPLOYEE TRAINING
HISTORY. IT COULD ALSO
BE USED TO PROVIDE
ONLINE TRAINING.

agencies such as procurement and contracting, supervision and management, information technology, personnel and budgets.

As a first step, the training courses should be offered through one central training organization. The quickest and most efficient step in this direction would be to create a single state training portal administered by the State Training Center. This website could be developed into a comprehensive portal for training and career planning for all state employees. This website could provide access to a comprehensive catalog of state and university courses for professional development for state employees.

Here are two examples of how the training portal concept has already been implemented by a state agency and a private corporation. The Franchise Tax Board (FTB) designed the "Employee Opportunity Network" (EON) on its intranet. Although FTB has 6,600 employees, the usage of the site passed 50,000 hits within a few weeks of implementation. In the private sector, Cisco Systems developed a website to orient new employees to its large and geographically dispersed company. The company found that the site also was popular with employees who wanted to know more about the company.

In addition to providing available training information, a state training portal could be used to register employees for any of the training offered through the portal and track agency use of training courses and employee training history. It could also be used to provide online training. This is a growing area for providing training to employees, particularly as computer systems become faster and more flexible. This approach can save time for employees, because it isn't necessary to travel to any of the state's training centers. It can also save money for the state by making more training available to more employees at a lower cost.

Action: *The state should create a central online training portal for state employees.*

We should take the training issue a step further. One of California's most important resources is its extraordinary higher education system. State government should work with the colleges and universities of the state to provide the best educational opportunities for the state's workforce.

Action: *The state should work with higher education institutions to develop appropriate learning strategies and programs for state employees.*



Hold Workers Accountable

Another section of the CPR report recommends moving to performance-based budgeting. Under this budget management system, the state would set out concrete strategic plans and would budget and allocate funds to meet specific goals and achieve specific outcomes. Budget decisions could thus be more closely tied to actual performance.

In conjunction with this concept, the state should develop evaluation processes for supervisors and managers that include accountability for results and a requirement to conduct

performance appraisals of their subordinates.

The state should work with unions to develop performance standards for rank and file employees. The state should also develop management reward systems to recognize outstanding performance and contributions to achieving organizational goals.

Action: *State agencies should incorporate performance goals and expected outcomes into employee evaluations.*

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Getting the Most Out of Taxpayer Dollars

"Thrift is of great revenue."

Cicero

IN THE PAST, A SIMPLE
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WAS TO RAISE TAXES TO
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TODAY, THAT SHOULD
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IT IS UNFAIR TO ASK HARD-
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UNTIL THE STATE HAS
DONE EVERYTHING IT CAN
TO SQUEEZE THE MOST
OUT OF THE DOLLARS THE
TAXPAYERS ALREADY
PROVIDE.

CPR Diagnosis

- **Eligibility processes for public assistance are inefficient.** Paper-based and face-to-face eligibility determinations don't get the job done.
 - **Valuable assets lie idle.** The state owns millions in surplus properties that should be liquidated to generate cash and reduce maintenance costs.
 - **Tax enforcement efforts fall behind.** The state leaves millions uncollected due to personnel shortages.
 - **California is entitled to more federal funds.** State programs seeking federal funds are not coordinated leaving money in Washington, D.C.
-

Despite the work done to date by the Governor and the Legislature to deal with the state budget crisis, the state still has important work to do. The state needs to continue making progress on making current ends meet, and it needs to work to eliminate the long-term structural problems that put the state in this position to begin with.

In the past, a simple expedient to deal with budget problems was to raise taxes to close the revenue and spending gap. Today, that should be the last resort. It is unfair to ask hard-pressed California taxpayers to do more until the state has done everything to squeeze the most it can out of the dollars the taxpayers already provide.

In its review of government operations, CPR found numerous opportunities for the state to save or raise funds without new taxes or fees. These opportunities can help close the budget gap, and they can help the state maintain critical services on which Californians depend. Some of the ideas produce one-time, short-term savings. Others produce ongoing gains. Together, they can help the state get its current financial house in order, and they can also help safeguard against future crises.

Controlling Personnel Costs

By reorganizing government to be more efficient, by introducing new productivity-enhancing technology and by being more strategic in our workforce planning and management, the state should be able to get by with a smaller workforce than it currently employs. Given the upcoming bulge in retirements, this reduction can be accomplished without layoffs or hiring freezes.

By managing the government more efficiently, California can hold down the growth in state employment. Since a big part of the cost of state government is personnel, this should result in large dollar savings for taxpayers.

Arriving at these savings will not be an easy process. Broad-brush statewide policies like hiring freezes and layoffs are self-

defeating, demoralizing and ineffective. By better managing the workforce statewide and hiring and training skilled workers we can effectively manage an evolving state workforce without a loss of services.

By allowing natural attrition to take its course, and by exercising care in the hiring and training of new employees, the state should be able to save literally hundreds of millions in personnel costs over the next five years. We believe the state can get by with more than 12,000 fewer workers than it has now. The estimated cost savings versus the way the state currently does business is estimated at \$4.3 billion between Fiscal Years 2005–2010.

For this approach to work, state government must operate more as though it is what it is—a single large employer, rather than an archipelago of independent island departments and agencies that act in their own interests rather than in the interests of the state government and the citizens they serve.

Action: *The state should achieve budget savings by controlling and better planning for its workforce.*

Save Public Assistance Dollars

One of the largest and fastest growing areas of the state budget is health and human services. Today,

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Prescription for Change

- **Control future personnel costs.** Much of the cost of any organization is in its employees. We are working to build a better, more skilled workforce. We should leverage those skills to cut costs.
- **Use technology to cut costs.** Technology, strategically applied, can reduce the work in state programs, cutting costs while improving service.
- **Eliminate fraud.** Fraud costs the state hundreds of millions of dollars every year. We should redouble our efforts to find the people who abuse our programs.
- **Better manage assets.** The state owns millions of acres of land and square feet of real estate. If it's not in use, we should sell it and allow its most productive use.
- **Improve tax administration.** We should make every taxpayer pay their fair share of state taxes and not a penny more.
- **Increase California's share of federal aid.** Californians pay billions of dollars in federal taxes each year. The state should get its fair share of funds from Washington, D.C.

these programs account for 32 percent of state spending or about \$24.6 billion a year. The services these programs provide are vital to many of our neediest citizens.

For example, Medi-Cal, California's federal Medicaid program, is estimated to have 6.7 million participants. Medi-Cal provides health coverage to low-income Californians who are members of families with dependent children, and to low-income aged, blind and disabled persons. CalWORKs pays assistance to families with

dependent children and helps these individuals toward employment.

An estimated 1.2 million people qualify for both CalWORKs and Medi-Cal. A third program, the federal Food Stamps program, provides food for 1.9 million low-income Californians. About 61 percent of Food Stamp recipients also participate in Medi-Cal and CalWORKs (Exhibit 7).

County welfare departments determine who is eligible for benefits. California's 58 county welfare departments process eligibility applications through

EXHIBIT 7

CALIFORNIANS ELIGIBLE FOR STATE PUBLIC ASSISTANCE PROGRAMS

Program	Eligible Persons
Medi-Cal	6.7 million
CalWORKs	1.2 million
Food Stamps	1.9 million

Source: California Department of Health Services.

face-to-face interviews. Applications affecting Medi-Cal only are received by mail. It takes 16,921 county eligibility employees to handle this outmoded system.

By contrast, the state's Healthy Families program, which provides children's health insurance coverage for low-income families, uses modern, Internet-based eligibility determination as well as applications through the mail.

Compared to Healthy Families, the county-based eligibility system is a technological relic. It takes too long, it isn't customer friendly, and it is often inaccurate. For example, the counties use at least 19 different systems to handle eligibility processing. Even though the statutory limitation for determining Medi-Cal eligibility is 45 days, that deadline is often exceeded by 30 to 60 days. Healthy Families in contrast can process a complete application in a maximum of seven days with an additional 10 days for

the effective date of coverage in the managed health plan.

The worst effect of the system, however, is on the citizens it serves. Calls to welfare offices in three counties with large populations by a mother with a sick child seeking assistance with a Medi-Cal application resulted in the caller being directed to the welfare offices to pick up an application and receive a pre-application screening. The applicant wasn't told she could apply by mail. Waiting times in the welfare offices, when the applicant did arrive, ranged from one to three hours, and office hours were generally 7:00 a.m. to 3:00 or 4:00 p.m.

This county-based process, which made sense in an earlier time, should be scrapped and replaced by a system modeled on the Healthy Families approach. There is precedent for this innovation. Several other states, including Pennsylvania, Florida



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and Michigan, have partially implemented a Web-based system using a common computer platform. Texas is in the process of developing an integrated eligibility system that mirrors what CPR is proposing.

Action: *Eligibility processing for Medi-Cal, CalWORKs and Food Stamps should be centralized at the state level.*

Fighting Fraud. One concern with a change in the large public assistance programs like Medi-Cal and CalWORKs is the potential for fraud. In fact, the struggle against fraud and abuse in these programs is continual. The Legislative Analyst's Office has put the estimated loss due to fraud in the Medi-Cal program at \$1.8 billion annually. Some other estimates go as high as \$3 billion. California has taken steps to detect potential fraud before paying claims, but most of the state's current anti-fraud efforts are based on a post-payment strategy. The types of fraud are shown in Exhibit 8.

Technology is now an effective tool in the battle against fraud in the public assistance programs. That technology is "smart cards." Smart cards are identification cards with imbedded computer chips. A card that costs about \$3 can store client demographic information, biometric information (such as one or more fingerprints), health information and security

information. They can maintain stored value—basically act like a credit card—to allow clients to make co-payments. In some states, they are being considered as enhanced replacements of electronic benefits transfer cards that store state payments for Food Stamps and the equivalent of the CalWORKs program.

Used correctly, smart card technology can be an effective way to detect fraud prior to payment, the most effective means of finding and eliminating fraud. The technology used in these cards has been refined by widespread use in the private sector and by the federal government. The cost of individual cards, which used to be a major barrier, has decreased to the point where they are an excellent option for Medi-Cal.

Action: *The Health and Human Services Agency should use smart card technology for Medi-Cal recipients.*

Although there would be some upfront cost for the new technology and computer systems to manage it, this system could, over a five-year period, save the state at least \$80.3 million.

Eliminate Surplus Assets

The State of California owns millions of acres of real estate, plus more than 22,000 structures. It owns golf courses. It owns a stadium. It owns fairgrounds across the state, some located on

EXHIBIT 8

**TYPES OF FRAUD FOUND IN CALIFORNIA
PUBLIC ASSISTANCE PROGRAMS**

Type of Fraud	Estimated Annual Cost	Description
Phantom claims	More than \$400 million	Billing for services that were not actually provided.
Claims for services to deceased clients	\$3 million	Billing for alleged services for deceased persons.
Card swapping	Unknown	Loaning cards to ineligible persons; selling ID information to fabricate claims; using stolen cards to obtain services.
Misrepresenting service dates	Unknown	Fraudulent reporting of service dates to allow a provider to claim services for which a Medi-Cal beneficiary was not eligible on the date that the service was actually provided.
Provider number stolen	Unknown	Stolen provider numbers are used to bill for services for which the authorized provider is unaware.

Source: California Performance Review.

patches of the state's choicest land. The Governor has already directed a comprehensive review of the state's asset portfolio for potential high-value urban properties to sell. The state's existing surplus property sales program has generated \$334 million in sales with another \$175 million in escrow.

Despite these actions, CPR believes the state should go further. Given the current budget crisis, the state can't afford to have unused, non-performing or underused assets on its inventory. However, when state-owned property is declared surplus, the process for its disposal is lengthy and cumbersome. Moreover, the state does not currently have an accurate



inventory of the properties it actually owns or their fair market value.

Changes in existing laws to clear out bureaucratic undergrowth could result in more property sales and increased revenue for the state. As importantly, the state would relinquish a large portion of this property to the private sector, returning it to the property tax rolls and allowing for its further development.

Action: *The state should undertake an inventory of its real property assets.*

Under current law, decisions to declare an asset surplus require an affirmative approval from the Legislature. Individual agencies make the decisions to declare a property surplus, and the Department of General Services (DGS) only acts to facilitate those decisions—nobody has the authority to dispute an agency’s decision to keep a property. The state should establish centralized decision-making within the Executive Branch regarding the determination that real property has become a surplus asset. Surplus property decisions should continue to be subject to public review, but this recommendation will allow these surplus sales decisions to be expedited.

Action: *The Department of General Services should be authorized to declare and sell surplus assets for the state.*

Under the current approach, each property sale must be funded on a specific project-by-project basis, and funding requests must be made as long as 18 months prior to receiving funds for the study. Given the size of the state’s real property inventory and continual changes, this makes no sense and unnecessarily slows the process. An annual appropriation of \$3–6 million for staffing and consulting services would return dividends for the state. Some of this funding could come from the sale of other parcels of land.

Action: *The Department of General Services should be given a clear role in the oversight of real property management.*

Current law allows sales at less than fair market value, which often means properties are disposed of with little or no benefit to the state. In many cases, the properties are literally given away.

Action: *State law should be amended to require the sale of state property at fair market value.*

Current law gives any non-state agency, such as local governments or certain nonprofit organizations, a right of first refusal for surplus properties. This right of first refusal can significantly delay the prompt disposition of surplus properties. While these entities should continue to have access to surplus sales, eliminating the right of first

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refusal would significantly speed up the sales cycle.

Action: *State law should be amended to eliminate the right of first refusal for surplus property.*

Taken together, CPR estimates that the improvements in the state surplus property law can speed up sales, netting the state an additional \$47–95 million annually from sales. These funds would be better directed to solving the state’s funding problems or to delivering needed services to Californians.

Smarter Business Practices to Cut Costs

Among its cost saving ideas, CPR took a hard look at state business practices for ways to cut costs. Some of those ideas have been discussed earlier in the report, but two additional recommendations are worth noting. There are significant cost savings to be gained by changing the state’s bonding and insurance requirements for large public projects, and the state can save money on its telecommunications bills by better cost monitoring.

OCIPs. When contractors bid on large public works projects, they are required to have sufficient insurance to guarantee successful completion of the project. Insurance coverage can include general liability, builder’s risk, worker’s compensation, design

errors and omissions, as well as other special coverage. The cost of this coverage is part of the contractor’s administrative costs and is reflected in the cost of the project.

There is a less expensive alternative that can be used in many cases. Owner Controlled Insurance Programs (OCIPs) allow the general contractor to purchase the appropriate insurance that covers all of the parties involved in the project, including subcontractors. This allows the subcontractors to eliminate their own insurance costs for the project, thus saving the general contractor money that can be reflected in lower costs to the state.

OCIPs are available to the state now through the Department of General Services’ (DGS) Office of Risk Management and have been used in some projects. DGS realized savings of more than \$3 million on one project by using an OCIP. While OCIPs may not make sense for every project, industry experience generally reflects the DGS experience, with savings estimated at 1 to 3 percent of construction costs.

Action: *The state should make greater use of Owner Controlled Insurance Programs for public works projects.*

CPR analysis indicates that using OCIPs could save the state \$22

AMONG ITS COST SAVING
IDEAS, CPR TOOK A HARD
LOOK AT STATE BUSINESS
PRACTICES FOR WAYS TO
CUT COSTS.

Asked and Answered

Among the many suggestions and comments CPR received, a number wound up being addressed by CPR recommendations. Here are just a few of the actual suggestions we received and a brief description of the ideas we came up with in response:

Comment: “Accountability, a percentage of people that work for the state have no accountability for their work. Accountability is a huge issue. Nothing gets done or it gets done very slowly. People are put into positions that are open without any regards to educational requirements and experience. You have a person in a position without any education in that field and experience. This creates a huge burden in that department whether or not they will admit it.”

CPR: State law and regulation currently allow state employees who meet certain requirements to be appointed to classifications for which they have not been tested and may not meet minimum qualifications. To ensure the state has an effective and efficient workforce, CPR is recommending that employees be required to meet minimum qualifications before they are appointed to any civil service position. This will require a change in state law, and we recommend that the Governor work with the Legislature to get this done.

Comment: “I too share the frustration of expensive textbooks. When I first heard about CPR and how it could change something in my life I thought of all the textbooks I have bought over the past few years. Seems like something should be done.”

CPR: Expensive textbooks were a recurring theme in higher education comments. Our recommendations (found in the detailed version of this report) suggest that the university systems give consideration to textbook costs in their selection decisions, that they inform students when earlier editions might be available and encourage the selection of textbooks where the textbook is “unbundled” from various supplemental, and often unused, material. We also encourage the university systems to examine textbook rental systems as are already used in some state universities and suggests that the universities help students use the Internet to sell or swap used textbooks.

Comment: “Consider an overhaul of our education system. During the 9th grade, teacher(s), the parent and student discuss the student’s future. Two options should be available: (1) Full-time academic environment or (2) Career path with vocational education courses and a part-time work environment. The emphasis in the academic environment would be college prep courses with the student furthering his/her education in college. The emphasis on the vocational path would be

continued education and completion of an apprenticeship. No student should leave school without the training or a degree with which to support him/herself.”

CPR: Career technical education (CTE), formerly known as vocational education, is a pathway to employment in skilled jobs that comprise up to 33 percent of California’s labor market. CTE is offered in occupational fields including information technology, business, health services and construction. High school CTE students go on to higher education at least as often as other students, are less likely to drop out of high school and have better employment potential than comparison groups. Despite these advantages, CTE course offerings and enrollment have declined over the past decade as California’s high schools have focused increasingly on college preparation.

This trend should be reversed. California high schools should offer rigorous, challenging career technical coursework integrated with academic education to prepare high school students for both higher education and the workplace. This can be done by providing alternative paths to high school graduation—one that prepares students for university admission and another for either employment or college-level study in a skilled occupation. Our report recommends that California adopt high school graduation requirements allowing a choice of courses of study, including university preparation and academic/career technical education.

Comment: “I drive for UPS. In the past, when I delivered to a State Department, they would order thousands of dollars in new computers. Then three months later they would order thousands of dollars more. When I asked out of curiosity about the second set, the reply would be that they had to spend it prior to the end of the fiscal year or their funding would be cut the next year. In other words, they would be punished for staying under budget and fiscally responsible.”

CPR: There are reforms in the CPR report moving agencies toward performance-based budgeting and better measurement of performance to see that such budget strategies don’t continue. In addition, we are recommending a whole series of reforms in the purchasing area that will allow the agencies to make smarter purchases through centralized contracts that get the state the best deal using the leverage of the state’s enormous combined buying power.



million a year on large infrastructure projects. These funds are not General Fund revenue, but the savings could be more usefully applied to other infrastructure projects.

Cutting the Phone Bill. Another area where the state should focus attention is telecommunication costs. The state spends about \$120 million annually on telecommunication services. Because of the size and extent of the state's telecommunication expenditures, there is a continuing possibility of mistakes that could cost the state millions a year. Moreover, the state frequently contracts for enhanced phone service that is later abandoned without discontinuing payments for the service. This is frequently found in the case of high-speed data lines.

An example of these problems comes from the California Department of Transportation (Caltrans). A Caltrans review early in 2004 uncovered a double-billing problem amounting to \$220,000 over a six-month period. This finding led to a more extensive audit by Caltrans that produced even more savings through the elimination of unneeded cellular phones and land lines no longer used by the department.

Many states and private businesses have recognized savings totaling

millions of dollars a year from audits of their telecommunications bills. California should also take a comprehensive look.

Action: *The Department of General Services should audit state telecommunications bills to discover overpayments or unnecessary line charges.*

Using the Caltrans experience as a measure, the state should be able to save as much as \$2.5 million a year on its current telecommunications costs from this audit.

For additional savings, a similar process could be applied to other state utility bills.

Improve State Tax Administration

While state taxpayers oppose new taxes, particularly when the economy is struggling, they generally support the idea that people and businesses should pay the taxes they owe now. There is clear evidence that the state is losing millions of dollars because of non-compliance with the state's major taxes. At times, this non-compliance is willful evasion of the tax laws. In other cases, individual taxpayers—and at times whole industries—are not fully informed of their tax obligations.

The state's tax administrators struggle with these problems every day. Under California's tax

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system, though, they are hampered by several factors. First, tax administration is divided among three different agencies—the Franchise Tax Board (income taxes), the Board of Equalization (sales and business taxes) and the Employment Development Department (state unemployment taxes). This problem is addressed by CPR’s proposed reorganization which is discussed later in this report. It would combine the three agencies into a single California Tax Commission.

Other problems will remain despite the reorganization unless the state takes action. One of these problems is outmoded technology. There are new technologies available to tax administrators that allow more effective identification of taxpayer non-compliance and maximize state spending on audit and compliance activities. The Franchise Tax Board (FTB) has been a notable success story in using this technology, yet incongruously, FTB’s innovations have not been adopted by the other tax collections agencies. Best practices should be used government-wide.

A system similar to the Franchise Tax Board’s could be developed on a performance basis, meaning the vendor is paid from the gains made on added taxes collected by the department. The FTB pioneered this approach, and it relieves the

state of most upfront development costs. The approach has also been used successfully in several other states, including Iowa and Texas, with proven revenue gains.

Action: *The Board of Equalization should use an advanced database system to more effectively identify taxpayer non-compliance with state tax law.*

The other problem area in state tax administration is people. One of the themes of CPR has been to manage the size of the workforce as an overall enterprise. This eliminates the need for broad-based and often self-defeating hiring freezes or layoffs. More importantly, it allows the state to recognize where it needs people to effectively manage its business. Tax administration is one of those places.

Hiring freezes have severely restricted the ability of the Franchise Tax Board and the Board of Equalization to employ audit and compliance staff. In the last year, these organizations have lost more than 1,000 staff years from critical tax collection activities. This is shortsighted and unfair to the state’s honest taxpayers. It means that dishonest taxpayers avoid paying the taxes they owe the state. The revenue agencies are significantly understaffed to deal with California’s large taxpayer populations. We believe that

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PAST DEBTS WITH THE
STATE THROUGH A TAX
AMNESTY PROGRAM.

expanding the number of skilled audit and compliance personnel, coupled with improvements in technology, could significantly increase state revenue collections.

Recruitment of workers could take place in two critical areas initially. First, the state should hire more staff to cover phone collection operations. These workers are used to call delinquent taxpayers to remind them that they have tax due. The workers are normally less costly than regular compliance staff, and they can yield significant revenue gains for the state.

Second, more auditors should be hired to cover the income and sales taxes. By expanding staffing in the three departments, the state can realize a net gain of \$73.8 million a year from delinquent taxpayers.

Action: *The state should authorize the hiring and deployment of additional revenue collection personnel for the Employment Development Department, the Franchise Tax Board and the Board of Equalization.*

Tax Amnesty

The state can also help its current budget problems by offering taxpayers the opportunity to settle past debts with the state through a tax amnesty program. Typically, such programs involve a short window of time when taxpayers can pay delinquent taxes owed to

the state with a waiver of penalty and interest.

Since the mid-1980s, the District of Columbia and 35 states have conducted tax amnesty programs. Eleven states and New York City enacted amnesty legislation in 2003 alone. Florida, for example, completed a four-month amnesty program in October 2003. The state spent about \$600,000 on the program, mainly in staff time. The return to the state treasury was \$268 million. A tax amnesty conducted by Texas in March 2004, netted the state \$379.1 million in state taxes and an additional \$58.9 million in local sales tax.

California has had several amnesty programs in past years; however, only one has been undertaken since Fiscal Year 1984–1985—an amnesty for Californians using illegal tax shelters that has produced an estimated \$1.3 billion thus far. With the proposed improvements in tax administration CPR is recommending, the timing is right for a more general tax amnesty. Taxpayers who fail to remedy past problems will soon confront a better-equipped and enlarged audit staff. By CPR estimates, an amnesty program should bring in an additional \$220 million the state would not otherwise collect. It would also speed up some other collections into Fiscal Year 2004–2005.

Action: *The Legislature should authorize a general tax amnesty for major state taxes, including the personal income tax, business taxes and sales tax. It should allow for partial wavier of penalty and interest and should extend the amnesty to past tax periods up to and including tax year 2003.*

The window for the amnesty should be fairly brief to avoid interfering unduly with normal state tax administration activities. It should be followed up by rigorous enforcement actions against taxpayers who continue to be delinquent in their tax payments.

Resolving Taxpayer Disputes

A final aspect of state tax administration that needs to be fixed is the tax settlement process. Both the Franchise Tax Board and the Board of Equalization have the authority to settle tax issues pending with taxpayers when it is in the state's best interest.

There are a number of reasons for making such settlements, but in many cases, the cost of litigation may be higher than the value of the amounts in dispute, or the state may be at risk of losing key litigation if an issue is challenged in court. The settlement process allows tax administrators to make the best decisions to protect the state revenue base and clear out the tax caseload. The process can also

benefit taxpayers since it allows them to reach an agreement with the state when issues are in dispute, saving time and money in a potentially unsuccessful challenge to state policy.

Although both tax departments can settle cases, the process is not currently used to the state's advantage. Presently, at the FTB, there are almost 900 personal income and bank and corporation tax appeals with a total value of approximately \$2.4 billion. At the Board of Equalization, more than 1,200 cases are pending with a total value of \$320 million. These backlogs are not being cleared. By making a stronger effort to settle as many of these cases as possible, the state can improve its financial position and can end disputes that might otherwise linger for a number of years.

Action: *The Franchise Tax Board should be directed to make a concerted effort to clear tax settlements as quickly as possible consistent with fair administration of the tax law and the best interests of the state and the taxpayers. The Board of Equalization should also more actively work to settle existing tax cases.*

The savings from this change could be substantial, given the value of the backlog of cases involved. If, for example, half the dollar value of the cases were cleared, with the state receiving only half of the tax

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GRANT FUNDS TO
STATE AND LOCAL
GOVERNMENTS IN 2002.
CALIFORNIA'S TOTAL
SHARE OF THESE FEDERAL
GRANTS AND PAYMENTS
AMOUNTED TO \$42.7
BILLION OR ELEVEN AND
EIGHT TENTHS PERCENT.
IN THE SAME YEAR,
CALIFORNIANS PAID \$58
BILLION MORE TO THE
FEDERAL GOVERNMENT IN
TAXES THAN IT RECEIVED
IN FEDERAL AID.

assessment, the state would realize a one-time revenue gain of an estimated \$675 million.

A Fair Share of Federal Dollars

The federal government distributed more than \$362 billion in various formula-driven and special grant funds to state and local governments in 2002.

California's total share of these federal grants and payments amounted to \$42.7 billion or 11.8 percent. In the same year, Californians paid \$58 billion more to the federal government in taxes than it received in federal aid.

Partly, this is a result of formula funding deficiencies written into federal law that do not allocate funds as fairly as they should.

The state should attempt to address that problem through Congressional action, but realistically, it is a difficult problem to rectify.

However, a part of the issue with federal funds is the complexity of federal programs and the laws and regulations governing their administration. Many states have discovered that a close, expert examination of programs the state administers, particularly in the human services area, can frequently lead to increases in federal funding.

Presently, the Office of Planning and Research operates a State Clearinghouse that is the single point of contact for review of federal grants received by the state. The review covers completeness, timeliness and accuracy. The Clearinghouse also reports to agencies as funding opportunities become available.

The Department of Finance (DOF) coordinates the federally funded agencies in the preparation of an annual indirect cost rate plan. Federal grants typically cover a portion of a department's general operating costs—its costs related to the program but not directly involved in it. The indirect cost reports are actually prepared by the individual agencies and reviewed by DOF. DOF does not have the authority to impose penalties on agencies that aren't timely in filing their reports, and at the time CPR's analysis was conducted, the single DOF position dedicated to the indirect cost plan was vacant. Collections for Fiscal Year 2002–2003 amounted to only eight percent of the actual amount legitimately recoverable by the state.

States like New York and Texas, which have focused time and expert attention on maximizing federal funds to their states, have experienced great success. This normally requires focusing the task of making sure the state is

receiving all of the federal dollars it deserves in one central agency and may even involve hiring private sector experts who are knowledgeable of the arcane aspects of federal funding formulas. It also means giving careful scrutiny to the state's indirect cost rate plan to ensure that the state isn't shortchanging itself on these costs.

Action: *The Governor should immediately consolidate all activities related to determining the eligibility for and receipt of federal funding in a special unit within the Governor's Office of Planning and Research.*

The federal grant unit should develop aggressive strategies to ensure the state is receiving all of the federal aid to which it is entitled. This may include revising current spending policies at the state level to comply with federal regulations, allowing California to qualify for more federal dollars. The state should also make a more concerted effort to identify and report federal indirect costs correctly. Agencies should be directed to comply with state requirements for indirect cost rate plan reports.

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Accountable Government

"A popular government without popular information or the means of acquiring it, is but a prologue to a farce or a tragedy or perhaps both."

James Madison

IN THIS AGE OF
CORPORATE SCANDAL AND
PUBLIC CONCERN OVER
ACCOUNTABILITY, WE
MUST BE CERTAIN THAT, AS
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CPR Diagnosis

- **The current budget system promotes unmanaged growth.** Baseline budgeting makes effective management of the budget nearly impossible.
 - **Performance metrics and measures are not employed.** Budgets are not tied to performance measures, and performance results are not measured or tracked.
 - **Meaningful budget and financial information is not available.** The state lacks enterprise-wide budget and financial systems that are necessary to produce the information managers need to plan and manage. Existing technologies are dated and fragmentary.
-

California's state government should reflect the decency, integrity and honesty of the people it serves. In this age of corporate scandal and public concern over accountability, we must be certain that, as Woodrow Wilson said, government is "all outside and no inside."

At a practical level, this means that our financial systems must keep

straightforward and complete records, that we account fully for every government action, and that we practice "government in the sunshine." Self inspection is the first step to responsible government.

The demands of government accountability do not stop there. We should manage and budget

public funds based on defined goals and objectives. Our success—or failure—should be measured against clearly stated standards of performance. We should track how well our agencies and departments do and tie performance to future funding decisions.

Annual incremental budgets that nudge prior years' allocations ahead by some amount based on flimsy criteria are tantamount to not budgeting at all. Performance should guide all budget decisions, and managers should be held accountable for their use of public funds.

In the area of financial management of the state's resources, CPR finds the state particularly deficient. Our systems are old and outmoded. The finances of the state do not meet national standards for financial reporting. While agencies of our government demand accountability from corporations in which the state invests, we cannot make the same certain claim of accountability.

Our budget practices also should be improved. The systems used to manage the budget are, again, out of date. More importantly, though, our state's budget is based on an old style of line-item budgeting that virtually guarantees poor budget decision making, since the Governor and the Legislature do not have all of the information they need to make the best

judgments about how to spend the state's resources.

Budget crises tend to focus the harsh light of reality on how well government does its job. The harsh reality in this area is that we need to do better, much better. This may be one of the most important areas of improvement in this study since it goes to the heart of the public's trust in our stewardship of government and our use of their hard-earned tax dollars.

A Budget Based on Performance

How we budget money and what we get for the dollars we spend are perhaps the most important issues in government. Rather than dole out money based on what agencies received last year, we should tie budgets to performance. When resources are scarce, it is important that the Governor and Legislature have the best information available to make informed decisions about the benefits and costs of state programs.

Our financial system cannot provide this essential information today. Budgeting is piecemeal, fiscal data are lacking, and there are no performance measures to gauge the performance of one program among many.

In short, California today is extremely limited in its ability

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Prescription for Change

- **Manage the budget for results.** The state should convert to a performance-based budget that puts a premium on setting clear goals and measuring success or failure.
- **Improve management information.** The current budget system does not demand that managers set, monitor and report performance metrics. Better information is needed.
- **Replace outmoded fiscal and budgeting systems and build better systems.** This requires an investment, but our separate financial systems must be tied together to allow accurate, comprehensive and timely statewide financial information and reporting.

to foresee and react to budget changes. All states have difficulty dealing with unexpected shifts in economic trends, but the best prepared states have fiscal systems that allow adjustments to be made quickly and effectively in a way that doesn't compromise vital state services.

The Current Budget Process.

California's budget process traditionally examines an individual program's prior level of funding as a base amount without considering if that amount was necessary. The result is that some California program budgets may be inflated unnecessarily. The process begins with departments preparing baseline budgets to maintain existing services. Departments also may prepare "budget change proposals" to increase or decrease funding.

The Department of Finance (DOF) analyzes the budget change

proposals, focusing on the fiscal impact of the proposals and their consistency with the policy priorities of the Governor. For some caseload-driven programs, such as financial assistance to the poor and elderly, the process may differ slightly, although the approach is the same. Instead of submitting budget change proposals, these departments submit a letter outlining proposed changes to their caseload assumptions. These letters typically include program and fiscal changes to the baseline budget.

Instead of appropriating funding for individual items such as personnel costs and equipment, the Legislature in many cases authorizes a lump sum appropriation for a program, which does not limit spending to specific items, but instead permits program managers some decision-making flexibility. These lump-sum

appropriations, however, do not identify goals and objectives, or tie the appropriations to performance measures that would demonstrate whether the goals and objectives are met.

While the current process has worked during periods of revenue growth and budget surpluses, it does not identify programs that have outlived their purpose. Even when revenues are increasing, it is difficult to address emerging critical needs or new priorities. As the California Constitution Revision Commission noted in 1996, “for members of legislative budget committees or citizens frustrated with the operation of state government, making changes to the status quo is extremely difficult.” Since 1996, that situation has not changed.

Surplus to Shortfall. When revenues decline and deficits appear, however, the existing process collapses. When budget shortfalls were first projected in May 2001, the DOF abandoned the traditional budget process to balance the budget. DOF conducted internal reviews to identify ways to reduce programs and then asked departments to submit plans to achieve targeted budget reductions. These reviews and plans, however, also worked off the baseline budget.

The state has been unable to reduce expenditures sufficiently over the

long haul, and the Fiscal Year 2003–2004 Budget Act relied on approximately \$20 billion in borrowing to bridge the shortfall. Because this budget relies heavily on borrowing and one-time solutions, the state faces operating deficits estimated at more than \$14 billion annually over the next five years. The Legislative Analyst’s Office has concluded that “the persistent nature of the out-year operating shortfalls—even in the face of an improving economy—indicates that the State will not be able to ‘grow its way out’ of its budget problems.” The current deficits are the result of three years of major imbalances between revenues and expenditures.

Performance-Based Budgeting.

Facing similar problems, many private businesses and governments across the nation have looked for an alternative to traditional incremental budgeting. That alternative is performance-based budgeting.

Performance-based budgeting adapts private-sector budget processes to the public sector. A performance-based budget process identifies what each department is trying to accomplish, how much it is planning to do with its resources, and how well it did with the resources it had last year. Money can then be budgeted based on decisions about the desired service level from each program, and

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program managers are held accountable for carrying out those decisions.

The advantage of performance-based budgeting is that funding is allocated based on what a program can accomplish. It also allows decision-makers to identify programs that have outlived their purpose. In addition, when budget shortfalls occur, it allows decision-makers to identify which reductions will have the smallest negative impact.

A number of states have successfully adopted the performance-budgeting approach. In its review, CPR looked at working examples in Florida, Texas and Washington. We also examined the results a pilot program conducted in California during the 1990s.

CPR is not alone in seeing potential value in a budget approach based on measuring and funding for results. The Little Hoover Commission and numerous other organizations have recommended implementing a performance-based budgeting system in California. Specifically, the commission found that "the current process for allocating funds and setting program priorities is not a framework that encourages the best policy decisions, especially in times of economic contraction." As a result, the May Revision to the Governor's Budget included

proposed legislation to require state agencies and departments to:

- Develop strategic plans;
- Prepare annual action plans which identify objectives, performance targets and the budget resources required for each of their programs; and
- Report program performance at the end of each fiscal year.

We should convert our budget process to a performance-based approach, allowing time for transition and putting into place workable systems to make the process straightforward and useful to managers and to state decision-makers.

Action: *The state should move to a performance-based budgeting system, based on statewide goals and objectives.*

The Department of Finance should provide instructions to agencies on developing performance-based budget submissions. State agencies and departments should ensure their funding requests conform to and support the statewide vision and goals prepared by the Governor's Office.

Each action plan should identify objectives, performance targets and the budget resources required. The plans also should identify the service level to be provided along with historical baseline

performance data for simple comparisons.

Essentially, departments would submit “bids” to fund each of their core programs at a specific level of service. Departments would no longer be required to report incremental changes, nor employee position details, such as job classifications.

Action: *The Department of Finance should identify core programs and performance targets in the Governor’s Budget proposal so the Legislature can review and approve these performance targets.*

Measuring Performance

A number of key elements must be in place for performance-based management to work successfully within an organization. One of these elements is the development and implementation of performance measures, which are practical, realistic and meaningful to management, employees and the public.

Performance measures are tools used to assess an organization’s success in fulfilling its mission and meeting its goals. Included within these measurements are various indicators, all of which are essential to measure performance accurately. These include:

- Input Indicators—the amount of resources used to provide a specific program or service;

- Output Indicators—the number of units produced, such as the number of citizens served;
- Outcome Indicators—the reports of the results;
- Efficiency Indicators (or Process Indicators)—the cost effectiveness or cost per unit; and
- Explanatory Information—the information that helps the user understand what influenced the results positively and negatively.

Developing these measures has an important role in improving an organization’s performance. They can help managers stay focused on results. By objectively assessing past and current performance, administrators are better equipped to plan for the future. Responsible administrators develop performance measures to ensure state government is using tax dollars wisely and that state employees are held accountable for their decisions.

Performance measures also are an effective way to inform elected officials, oversight agencies, the public and other stakeholders of the results of government programs.

Valid performance measures can be difficult to develop depending on the nature of the work performed by an organization. At times, it can

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be difficult to develop performance measures that actually reflect what an organization does. This difficulty can be due to lack of training, lack of data, fear of reporting results or lack of agreement on what should be measured and how it should be interpreted.

Despite these obstacles, the use of performance measures is a major step to program improvement. They help reduce the guesswork in government programs and pave the way to both improving services and controlling costs.

Action: *The Department of Finance should devise and distribute guidelines and procedures to state agencies and departments on how to develop and use viable performance measures.*

Agencies can use these guidelines to develop relevant performance measures. Information on these measures should be gathered on a routine basis—e.g., monthly—and reported on a quarterly and annual basis. Results should be incorporated into future agency budget submissions.

Looking Ahead, Thinking Ahead

Government's view of the future is, like those of other organizations, limited and imperfect. It is difficult to foresee and accurately predict changes in national economic conditions. It is impossible to

foresee natural and manmade disasters and other circumstances that may impose new and unexpected demands on government. On the other hand, as technology writer and editor Herb Brody has written: "Telling the future by looking at the past assumes that conditions remain constant. This is like driving a car by looking in the rearview mirror."

California does some long-term planning now, but it is limited. The Department of Finance (DOF) and other state departments estimate the long-term fiscal impact of legislation when they analyze individual proposed bills. The DOF also prepares a five-year capital outlay plan each year for the Legislature. Little attention, however, is paid to the long-term impact of budget decisions or the long-term financial condition of the state during the budget development process. The DOF develops comprehensive, long-range projections for credit-rating agencies after the budget is in final form, but these projections often only cover the coming budget year and the year after. In addition, the Legislative Analyst's Office publishes a comprehensive five-year projection of revenues and expenditures after the Legislature adopts the final budget.

In its 1995 review of the state's fiscal condition, the Little Hoover Commission warned "while

California's budgets appear to be in balance each year when they are adopted, the State has incurred a large structural deficit." In short, spending was exceeding revenue on an ongoing basis. A decade later, much the same observation applies. The structural problem, in remission in the late 1990s, has recurred. The current deficits were the result of three years of major imbalances between revenues and expenditures.

Since 2001, the Governor has proposed, and the Legislature has adopted, budgets that were balanced in the year they were adopted, but created growing operational deficits in future years. As early as May 2001, the Legislative Analyst's Office predicted an ongoing structural deficit of \$4 billion beginning in Fiscal Year 2002–2003. Although the 2001–2002 Budget Act proposed a \$2.6 billion reserve, it did not significantly restrain the growth in state spending. By November 2001, the projected structural deficit had skyrocketed to more than \$12 billion (Exhibit 9).

The fiscal crisis grew worse. To alleviate the situation, the Fiscal Year 2002–2003 Budget Act included a year-end reserve but still did not address the underlying structural deficit, because it relied again on short-term expenditure reductions. By 2004, the budget shortfall more than doubled.

The California Balanced Budget Act, Proposition 58, passed by voters in March 2004, enacted significant changes to protect the state from carrying large deficits in the future. It requires the state to enact a balanced budget. It establishes a Budget Stabilization Account of up to \$8 billion, or five percent of General Fund revenues, whichever is greater, to cover budget shortfalls. It also provides a process to make mid-year budget adjustments and prohibits future borrowing to cover budget deficits.

These provisions should help California avoid fiscal crises in the future, but they alone cannot bridge budget shortfalls. For example, even the new Budget Stabilization Account would not be sufficient to cover the current deficit. In addition, the restriction on the use of debt to cover budget deficits requires better financial planning on the part of the Executive Branch and the Legislature, if undesirable program reductions and tax increases are to be avoided.

Action: *The Governor should direct the Department of Finance to prepare a long-range financial plan for the state of California.*

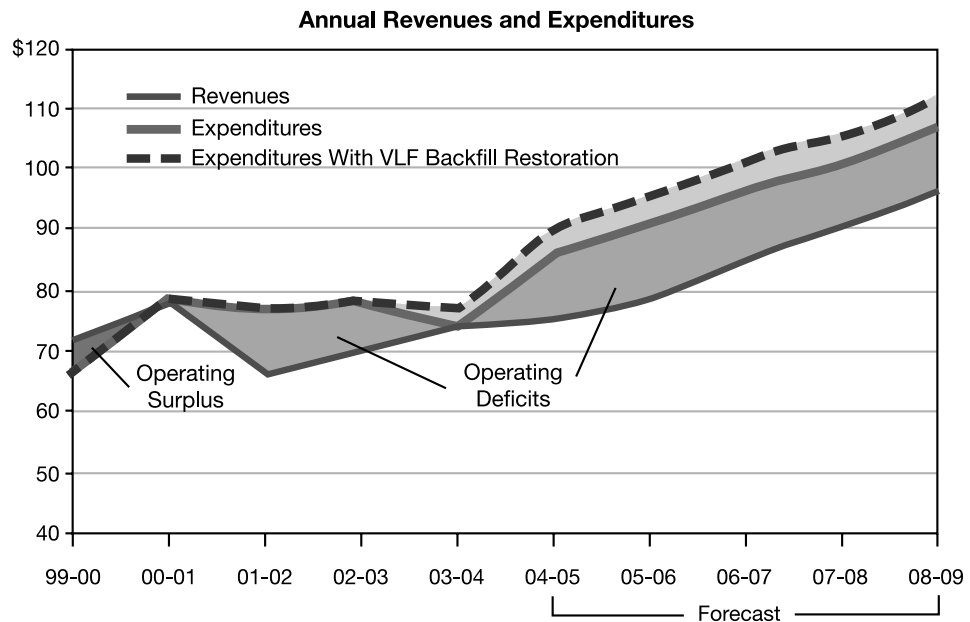
The plan should project revenues and expenditures for five years. It should also reflect the statewide strategic vision and goals. The creation of a long-range plan

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EXHIBIT 9

A DECADE OF DEFICITS? General Fund Operating Deficit Projections (Amounts in Billions)



Source: Legislative Analyst's Office.

would provide the Governor and the Legislature the information necessary to assess and adjust when necessary the long-term fiscal impact of their decisions.

Keeping the Books

One of the CPR's primary responsibilities was an "audit" of the state's financial systems and reporting, budget processes, financial controls and state oversight of its fiscal affairs. This process differed from the broader work of the Performance Review, as it used auditors knowledgeable about the state's fiscal system and was done in accordance with Generally Accepted Government Auditing Standards. The findings provide some important insights that can be applied to the overall review (see also the accompanying article on the line-by-line audit). They include:

- The large number of financial systems is not efficient or effective.
- There is insufficient oversight or audit of the existing systems.
- Many of the existing systems are obsolete due to deferred maintenance.
- California state government is dependent on diminishing staff resources to maintain systems and to use the complex network of systems to ensure data integrity.

- The decentralization of the system has created a risk.
- The design of the systems limits their use and maintenance.
- State laws, regulations and policies have so many complicated requirements that the state cannot use standard commercial software.
- Organizationally, it is unclear who is accountable for financial management—individual departments, the Department of Finance, the Controller or the Treasurer.
- The state lacks a strategic direction in financial management and has no plan to improve its overall system.

These are worrisome conclusions, and their importance should not be underestimated. In 2002, Syracuse University's six-year Government Performance Project study of state and local government performance reported that financial management is a primary indicator of overall government performance.

California is not a recognized leader in state financial management. In 2001, *Governing Magazine* conducted a nationwide survey, comparing financial management practices among the 50 states. The magazine awarded California a B- in financial

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“A line-by-line audit...”

One of the Governor's directives to CPR was the conduct of a “line-by-line” audit of state government finances in addition to the other work of Review. The Audit Team CPR assembled was composed of skilled auditors from across government.

The Audit Team focused on work performed by existing state audit and control organizations, supplemented by its own original analysis. More than 60 state agencies currently employ more than 4,000 auditors for a range of purposes. Primary responsibility for the state's overall fiscal review lies with the Department of Finance and the Legislative Analyst's Office (budget information), the State Controller's Office (financial accounting and reporting) and the Bureau of State Audits (auditing of the state's consolidated financial statements).

In its work, the Audit Team looked at the work of the key financial organizations within state government. It examined financial reporting to see that revenues and expenditures are accurately stated. It looked at whether funds are used for their legally authorized purposes. The Audit Team also examined the necessity of various programs, although that was part of the larger CPR effort. It surveyed 106 agencies on their financial practices, receiving detailed answers from about 75 percent of those surveyed. The findings and conclusions of the Audit Team's review of state operations are reported in detail in a separate volume of the CPR report. The main conclusion from the report:

“With all these components operating in unison, the state would be reasonably assured that its operations met its objectives. However, we believe that in spite of the best-intended efforts of the parts, the whole is not coordinated and the results are not effective.”

SUMMARY OF KEY FINDINGS:

Financial Controls

1. The state's system of internal controls should be improved. Many state agencies have neglected to comply with the applicable law requiring effective systems of internal controls, increasing the risk of waste, fraud and abuse.
2. Many smaller state agencies' financial information is not adequately reviewed to determine if it is reliable and fairly stated. Numerous smaller agencies do not receive routine audits of their financial information.
3. Most state agencies do not have internal audit units and do not perform routine accounting/administrative control audits.

Financial Systems

1. The large number of existing financial systems within state government is not efficient and effective.
2. The existing systems lack sufficient oversight or audit capabilities.
3. Many existing financial systems are obsolete because they have not been properly maintained.

4. The state is dependent on diminishing staff resources to maintain and operate its financial systems and to ensure data integrity.
5. The decentralization of the state's financial systems has created a risk due to the lack of complete, accurate centralized inventory of fiscal systems.
6. Organizationally, the state lacks a clear definition as to who is accountable for financial management and related systems.
7. The state lacks a strategic direction for financial management and related systems, and currently has no plan to develop such a plan.

Strategic Planning/Performance-Based Budgeting

1. There is no centralized tracking or monitoring of statewide strategic planning efforts. A pilot, authorized in 1993, has been largely abandoned.
2. The majority of agencies perform some type of strategic planning, but this planning does not drive the budget process. Half of the agencies surveyed develop strategic plans. Most agencies prepare strategic plans but don't forward them to the Department of Finance or to the Governor's Office.

Performance Measurement

1. Approximately 90 percent of agencies are currently using benchmarks and performance measures.
2. Agency management teams regularly monitor performance results.
3. Insufficient resources and an inability to develop performance measures often derail efforts to establish or refine performance measures.

Performance-Based Budgeting

1. Twenty-four percent of responding agencies have integrated performance measurement into their budgeting processes.
2. Most agencies' budgetary responsibilities are established and regularly monitored.
3. State agencies claim that a lack of resources precludes them from implementing a performance-based budgeting process.

Audit Coverage Over Agencies' Strategic Planning and Performance Measuring

1. Nearly half of the reporting agencies indicated that their program performance or measures were reviewed or audited.
2. The Bureau of State Audits identified improvements in strategic planning and performance measurement.
3. Some state agencies' internal auditors conduct performance reviews of operations and programs, including assessment of performance measurement.
4. The state should have centralized control of audits to ensure oversight, guidance and monitoring.



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management, finding that the state's financial systems fail to provide to state officials, the business community and taxpayers timely, accurate and useful financial reports, which gauge the accurate cost of delivering programs.

California has struggled with financial reforms over the past decade, but too often, there has been no follow through on such efforts. Efforts at modernizing the state's financial management system have occurred only at the individual department level.

The Department of Finance still requires agencies to use its aging fiscal accounting system, known as the California State Accounting and Reporting System (CALSTARS). A stated goal of CALSTARS is to achieve uniformity between the state's budgeting and accounting processes. Departmental budget management systems, however, are typically stand-alone and not tied to the CALSTARS accounting system. In addition, departments often modify CALSTARS to fit their own needs or ignore it and devise their own financial information system.

In 2001, the Senate Advisory Commission on Cost Control in State Government reviewed the state's attempts at performance measurement and observed that California lacks a statewide, integrated management

information system: "There is no uniform management information system available to help the State develop, publish, or obtain data required to manage and monitor the various operations for service, cost effectiveness, or outcomes. Lacking central leadership, agencies are proceeding independently. There are organizations that currently have, or are developing, management information systems using outside vendors. This requires investment of huge amounts of money with no data outputs on a statewide basis."

The statewide audit by the CPR's Audit Team found no gross irregularities in state accounting, but with these systems, it is difficult to close the book on any financial issue with confidence and finality. Financial management is at the center of integrity and public trust in government. Changing financial management systems is not a simple or inexpensive task, but it is a task that must be addressed.

Action: *The Governor should instruct the Department of Finance to develop a financial management system capable of supporting a performance-based management system.*

Action: *The Governor should direct the Department of Finance to develop a long-term financial management strategic plan with targeted goals and strategies for accomplishing those goals.*

Smart Management Decisions

"Bureaucracy defends the status quo long past the time when the quo has lost its status."

Laurence J. Peters

CPR Diagnosis

- **Purchasing by the state is uncoordinated and inefficient.** We don't buy like a single organization, and we miss the savings from leveraging our buying power.
 - **Purchasing is tied to paper processes.** This is the most expensive way to buy.
 - **The state has not invested in contract management.** Millions are lost by not actively managing the contracts that we have.
 - **The state insulates itself from competition.** Absent competitive pressures, state pays too much for services and doesn't get the quality it deserves.
 - **Bureaucratic inertia stops obvious solutions.** State government is not primed for innovation and continuous improvement.
-

One of the more common comparisons made when judging government is its performance relative to the performance of private businesses. Some argue that government should be "run more like a business." The counter argument is that government isn't a business because profits are not a central concern. Some go so far as

to say that the concept of customers doesn't make sense, because people probably don't consider themselves to be "customers" of the tax collector, the prison guard or the regulator.

The reason this debate continues is that both sides of the argument are partly right. Government does

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have a set of responsibilities and requirements that make it different from most American businesses. In most cases, it doesn't earn a profit, and the services it provides frequently benefit many citizens rather than a specific individual—services such as roads, public schools, public safety and assistance to the needy.

Many of the daily processes of government, though, do closely parallel business operations. Government hires employees, it manages a payroll, it buys and sometimes sells goods and services, it maintains a set of financial records, it deals with the public on a daily basis and it offers "products" to its customers.

In managing these operations, government can and should operate like a business. It should make smart business decisions and manage its operations like what it is—one of the largest single businesses in California, with more than 315,000 employees, a \$22.7 billion payroll and services that touch the lives of most of California's 36 million people.

In its review, CPR found a number of areas where the state can operate in a more business-like fashion. It can incorporate many of the techniques that the most successful businesses use to cut costs and improve services. It can make common-sense decisions.

Most importantly, it can stop acting like hundreds of small, independent businesses and recognize that it is a single business enterprise. By doing that, particularly in the procurement area, the state can leverage its buying power to give the people of California a better value on the dollars they pour into the State Treasury.

Buy Smart

An obvious place to begin these recommendations is procurement. California state government spends upwards of \$7 billion annually on goods and services, ranging from work by consultants to food for inmates in state prisons to the computers on workers' desktops to pencils and routine office supplies (Exhibit 10). California state government is large and diversified business.

One problem is that single departments acting individually too often make these purchases. In that circumstance, the state clearly doesn't get the best buy for its dollars. The irony is that often dozens, if not hundreds, of agencies are buying pretty much the same goods and services. Nowhere is this fact more obvious than in information technology. State agencies today have 17 contracts with Microsoft for their various products and services. We have 78 contracts with Cisco Systems and another 54 with IBM.



Prescription for Change

- **Manage government like a single business enterprise.** In areas like purchasing, departments and agencies act independently. We should leverage the size of the state's business presence.
- **Use technology to improve service at a lower cost.** Developing technologies can give government better tools for serving people and improving its operations.
- **Better manage contracts and tie purchasing to supplier performance.** We spend billions of dollars on goods and services each year. We need to get the most from every dollar spent.
- **Use managed competition to drive down prices and improve service quality.** Our standard for delivering services should be to accomplish the task in the best way possible at the lowest cost to the taxpayers.
- **Apply common sense to common problems.** Just because we've always done something doesn't mean it's the right way—or the best.

Those are the major suppliers, and there are dozens of others.

The problem here doesn't lie with our suppliers. They are responding to what the state asks of them. The problem is with a procurement system that turns a blind eye to the inefficiency and redundancy that dozens of contracts with the same vendor for generally the same services imply.

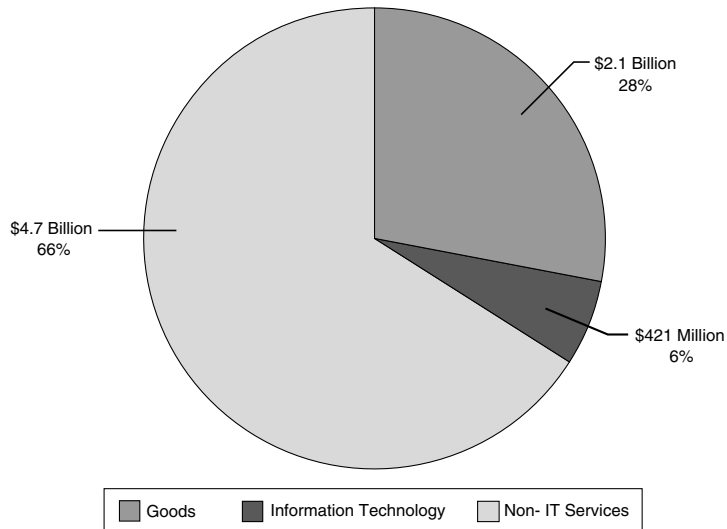
Strategic Sourcing. The state has begun to move in the right direction, but much more effort is necessary in this area. Since the CPR began, it has worked with the Department of General Services on an approach to purchasing called

“strategic sourcing.” Strategic sourcing is a rigorous, systematic process by which an organization analyzes its spending and determines the best way to buy goods and services to get the best value at the lowest price. It is a first step toward leveraging the state's enormous purchasing power.

This approach has been used successfully in the private sector, with reports of cost savings of 10–30 percent. It also has worked to speed up the procurement cycle, meaning fewer delays and a better relationship between purchaser and supplier.

EXHIBIT 10

TOTAL STATE SPENDING ON GOODS AND SERVICES FISCAL YEAR 2000–2001 (Amount in Billions)



Source: California Performance Review.

CPR believes this approach has the potential to save the state millions of dollars annually.

Action: *The Governor should direct the Department of General Services to expand its use of strategic sourcing throughout state government.*

Master Service Agreements.

Strategic sourcing would be a major step forward, but our efforts to squeeze more out of every taxpayer dollar shouldn't stop there. We should also take a hard look at major suppliers and how we have done business in the past. Specifically, the state should try to consolidate its thousands of small contracts into more encompassing

statewide master contracts. This is a particularly important move in the information technology area, and state law allows the renegotiation of contracts.

It will be worth the effort. In discussions with CPR staff, Cisco Systems, as one example, estimated that a combination of contract consolidation and multi-year contracts could result in as much as a 15 percent reduction in contract costs to the state. Microsoft estimated reductions of five to seven percent through contract consolidation. The savings from just a handful of initial major vendors could amount to more than \$2 million in savings annually.



Action: *The state should negotiate single master service contracts with major vendors wherever possible.*

This strategy should start with information technology vendors, due to the state's large number of contracts. This strategy offers significant potential for savings, and both parties benefit from reduced billing and administrative costs.

Better Management of Pharmaceutical Costs

The state also can be smarter about how it buys prescription drugs. The state is an enormous buyer of a range of pharmaceuticals for its employees through its health benefits program for university faculty and staff, for people receiving public assistance, and for those in adult and youth correction facilities.

Spending for pharmaceuticals by the Department of General Services (DGS), which buys drugs for five major departments, including the Department of Corrections and the California State University System, totaled about \$153.6 million in Fiscal Year 2002–2003. However, that cost is swamped by the amount the state pays under the Medi-Cal and related Health Services programs, which totaled \$3.8 billion in Fiscal Year 2002–2003 (Exhibit 11).

The price of medicines is rising at an alarming rate. Drug costs

through the DGS program rose from \$41.6 million in Fiscal Year 1996–1997 to \$153.6 million five years later. Most of the cost increase is attributable to the rise in mental health prescription costs for inmates in the corrections system. The average cost of medication was \$197 per inmate annually in Fiscal Year 1996–1997, but that cost had risen to \$770 per inmate a short five years later.

The state's large volume of drug purchasing should translate to a strong market position and lower costs, but that is not the case. Several of the state agencies purchasing drugs do so independently, thus dividing the state's buying power and undermining attempts at cost-effectiveness. Medi-Cal buys 90 percent of the drugs procured by the state, but at this point, other agencies don't have access to this purchasing pool, and information on rebates for Medi-Cal are confidential and are not shared with other agencies.

In addition, the California Public Employees Retirement System (CalPERS), the California State Teachers Retirement System (CalSTRS), the California Veterans Homes and the University of California System have the legislative authority to buy drugs independently of the Department of General Services.

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EXHIBIT 11

STATE PHARMACEUTICAL COSTS BY PROGRAM

(Amounts in Millions)

Department	Department Administering	Dollar Volume
Medi-Cal/Health Services	Health Services	\$3,800.0
Corrections	General Services	101.7
Mental Health	General Services	35.4
Youth Authority	General Services	1.7
Developmental Services	General Services	13.2
California State University System	General Services	1.6

Source: Department of Health Services and Department of General Services.

One way that many public and private organizations have worked to manage costs is by establishing drug formularies that closely control the cost and range of drugs, while looking for the best values. This approach also provides a large amount of information that can be used in making purchasing decisions and in negotiating with pharmaceutical suppliers.

Taking another step, public and private organizations have hired pharmacy benefits managers (PBMs) to provide this type of pharmacy management. The approach, which makes use of experts in this area, is not unknown to the state. Both CalPERS and CalSTRS have used PBMs to help contain and manage drug costs.

The County Medical Services Program (CMSP), which operates in 34 small and rural counties, established a PBM in January 2003. The program serves 40,000 indigent adults and children who do not otherwise qualify for Medi-Cal or have health insurance. In the first year of its PBM contract, drug spending for CMSP was cut by 34 percent, and the program saved \$20 million against payments to the manager of \$700,000.

Buying pharmaceuticals is a complex process. All of California's programs have special needs and are trying to do a good job, but it's time to ask if we couldn't do a better job through better management. Rising pharmaceutical



costs are one of the most significant national health issues of this generation, and the statistics make it plain that by sticking to independent action on a department-by-department basis, the state is failing to manage costs effectively.

Action: *The Governor should direct the Department of General Services to immediately enter into a contract with a Pharmacy Benefits Manager to administer the state's drug purchasing program.*

Action: *The Department of General Services should seek to extend the state's market power by entering into cooperative agreements with local governments.*

Action: *All state non-Medi-Cal pharmacy programs should be moved into a buying unit that can best leverage the state's large expenditures in this area.*

The centralization of pharmaceutical purchasing is important to the goal of managing the state's health care responsibilities. Drug costs will continue to rise, and immediate action is the best way to stretch taxpayer dollars in the short term. If the changes can be put into effect quickly, the state could save \$15.8 million in the first year of operation, with savings rising to more than \$20 million a year once the program is fully in effect.

e-Procurement

A more far-reaching step in the procurement area is to use technology to purchase more efficiently—a process known as electronic procurement or “e-procurement.”

Buying goods and services in most states is a manual process, with paper forms, phone bids, faxes and paper catalogs. In the digital age, any manual process is ripe for examination. The state issues about a quarter million purchase orders a year. The processing costs—in staff time and other resources—average at least \$114 a purchase order, according to national surveys. That means that before the state actually receives a shipment of paper or a carton of toner, it spends \$28 million just to process the paperwork. There is a better way that can both save money and cut that basic processing cost by more than 60 percent—to \$31.50.

Electronic procurement will give decision makers precise information about spending, which the state doesn't have now, including how and where the state is spending money. That sort of information is a key to cutting costs, leveraging buying power and measuring supplier performance.

It could also help the state expand the pool of suppliers, benefiting companies seeking to do business with the state and providing

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 EFFECTIVELY.

Selling to the State

CPR asked for public input and received thousands of e-mails on all sorts of topics. One particularly frustrating area came from those who sell to the state and highlighted issues CPR procurement recommendations are designed to address. A sample of the comments:

"I work for a vendor who contracts for services with the State of California. Under our contract there are multiple vendors who have different prices for the exact same services. While I believe that having a choice is the right thing to a degree, I also think that price should be a larger consideration than personal preference. It does not seem right that a State of California employee should be able to choose to use a vendor when the price might be up to \$15.00 per day more than another vendor offering the same service."

* * *

"We contracted with the Department to perform some cabling work. We completed that work and invoiced the Department on 7-10-2003. We still have not been paid, and it is now been nearly 8 months."

* * *

"I am extremely concerned both as a citizen of the State of California and a small business owner, that State contracts are still going to large expensive consulting firms when the State is still so deeply in debt. What gives with this? I also lost two other projects to large, more expensive companies with the [agency], but at least they were honest about who they hired. I suppose this is a formal protest of sorts, but no doubt too late to change what has already happened. I just hope the State agencies will more closely consider the value of small businesses in saving money on consultant contracts."

* * *

"I find it odd that if the contractor moves 1 mile and changes their address, I cannot fill out a simple change of address form. I must complete a new 'vendor data form' (fine by me) and then do a contract amendment (STD 65 and STD 15 forms, 7 copies and full routing). What a waste of time. I just bought a home and my change of address took 30 seconds! Sorry I came from private industry."



agencies with a wider range of options. Right now, lists of suppliers are not maintained centrally, and vendors must file separately with each agency to which they want to sell.

Electronic procurement is another area where the private sector has led the way. Xerox Corporation reduced the number of people needed to handle procurement by 20 percent when it went to e-procurement. The states that have pioneered this approach have also found savings. North Carolina reported savings of 26–50 percent when it implemented an e-procurement system.

Those who have begun using these systems report not only savings but also improvements in the information available for decision-making, efficiencies in the purchasing processes, better accountability, improved financial management and the ability to gain greater access to regional and small businesses.

One issue with any automation effort, of course, is the upfront cost. Governments are often reluctant to invest now in technology for the promise of future savings. In this case, the states that are using these systems already—including North Carolina, Maryland and Virginia—charge vendors fees to access the system, which pays for the system itself, with no start-up costs. It might also be possible to finance a

new system using performance-based contracts so that the state and the private sector e-procurement partner share in the risks—and rewards—from the e-procurement savings.

Action: *The Governor should direct the Department of General Services to develop and implement an e-procurement system statewide.*

A Common Payment Portal

The state should develop a single electronic payment portal for people who want to pay their taxes, pay fees or purchase goods from the government online. Today, more than half of the state's 36 million citizens and most of its businesses have access to the Internet. People are increasingly familiar with and accustomed to the use of electronic payments (e-payments) to conduct business at their convenience at anytime of the day or night—except, that is, with the state of California.

A few agencies have pioneered online payments, including the Board of Equalization, the Department of Consumer Affairs and the Department of Motor Vehicles. The problem with this approach is two-fold. Right now, each agency is developing its own payment portal, meaning that each is incurring development and operating costs. More to the point, though, while a few agencies can

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be found on the Internet, the vast majority cannot.

Even in the area of credit card payments, the various agencies that accept credit card payments have contracted with various third-party providers and have disparate processing methods and widely ranging fees.

Electronic payments are fast, convenient and much cheaper on a per transaction basis. Security for the payments has greatly improved, and the approach is widely used by business, by other states and by some California departments. It's just common sense for the state to promote a common pay portal as part of the efforts to increase the state's Internet presence.

Action: *The Chief Information Officer should establish a statewide strategy to implement electronic fee collection and reduce manual paper payments by 25 percent as soon as possible. The state should also move quickly to develop a common electronic payment portal.*

Improve Contract Management

Another area where California state government could operate more effectively is contract management.

In March 2003, the Legislative Audit Office overview and the Department of Finance (DOF)

assessment of 117 state information technology contracts of more than \$10 million uncovered numerous instances where departments were not properly managing technology projects. DOF found that of 90 of 117 projects—three out of four—had at least a 10 percent change in schedule, cost or scope, which may have adversely affected the completion of the projects. A 2001 Bureau of State Audits report found that state agencies and departments had not considered risks early in the procurement process. Problems that might have been corrected early lingered, requiring costly and time-consuming fixes late in the projects.

Many businesses and other units of government have faced similar problems managing large-scale contracts. There are ways to address the problem, but the state has failed to implement an aggressive policy to ensure that its projects are on schedule, on budget and effective. Currently, the state does not place an emphasis on contract management. Departments don't provide training in this critical area of state business, and there is limited formal monitoring.

The few procurement officials hired by the state who possess contract management skills received their formal training elsewhere. It is a demanding field. Managers must understand issues ranging from the



technical aspects of the project to contractor compensation and insurance plans. They must be able to negotiate disputes and monitor contractors' financial condition so that it doesn't jeopardize the project. The list goes on and on. If the state is going to function as a business, with \$7 billion in purchases a year, it must be aggressive in writing and managing contracts that work for the state and for its private sector partners.

In addition, each state agency should conduct annual contract administration and management performance evaluations for their purchasing and procurement employees. The agencies and their representatives should be held accountable for improving and maintaining an effective system of contract management.

CPR believes that this simple shift in management emphasis will result in real savings to the state. One estimate, performed on a similar set of recommendations in Texas, estimated a .05 percent cost savings. Such an improvement in California's contracting could save the state \$38 million a year.

Action: *The Department of General Services should institute a contract management policy for the state and develop common guidelines and training for all state-employed contract managers.*

Performance-Based Contracting

The state also should use performance-based contracting whenever appropriate. Traditional government contracts emphasize inputs—how much work the contractor will do, what sorts of material they will use and so on. Performance-based contracts, in contrast, clearly spell out only the desired results expected from the contractor. They also spell out how quality will be ensured and the remedies in cases where the contractor fails to meet performance expectations.

A wide range of services bought by the state would lend themselves to this approach. Performance-based contracts have been used in the private sector for information technology projects, janitorial services, construction projects and health purchasing among others.

California state government is in an odd position when it comes to this contracting methodology. The state has been slow to embrace the general use of this concept, although two of its agencies—the Department of Transportation (Caltrans) and the Franchise Tax Board (FTB)—have been pioneers in using the approach successfully. These two examples demonstrate the positive benefits for the state and also show two variations on the methodology.

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After California's Northridge earthquake, Caltrans offered a contractor substantial performance incentives and penalties for rebuilding a highway overpass—a \$200,000 per day bonus for completing the project ahead of schedule and a \$200,000 a day penalty for each day it was behind. With this schedule incentive, this project was completed ahead of schedule, benefiting the state's citizens and the contractor.

The Franchise Tax Board used a variation of this approach in which the contractor shared in the revenue benefits of the project. FTB's Accounts Receivable Collections System required the contractor to front development costs for a share of any revenue gains once the system was in operation. The system's benefits were originally forecast at \$35 million a year in 1998, but the system has continuously exceeded expectations. Again, it has served as a model for similar projects in other states.

Other approaches to this type of contracting ties contractor payments to savings achieved rather than revenue; however, the basic idea is the same. The contractor shares the risk with the state and benefits from successful completion of its work (Exhibit 12).

Action: *The Department of General Services should actively promote performance-based contracting to reduce the cost of goods and services.*

Savings can be significant. It can also help the state finance projects, like the Franchise Tax Board project, for which dollars might not otherwise be available through regular appropriations. Research indicates conservatively that seven to 15 percent of the total amount of state spending could benefit from this contracting approach. Estimates based on 11 percent of state contracts moving to a performance-based contracting suggests savings of about \$67–167 million a year. As the scope of state contracting using this approach expands, savings could quickly top a quarter of a billion dollars annually.

Introduce Competitive Alternatives

Government performs some tasks extremely well. For other tasks, usually unrelated to its core functions, the private sector may offer a better solution. Often government agencies may resist private sector involvement, hanging on to activities that cost more money and are done less efficiently. For example, a department with a large amount of mailings may handle its own outgoing mail operations, rather than taking advantage of vendors

**EXHIBIT 12****INCENTIVE-BASED CONTRACTING OPTIONS FOR CALIFORNIA**

Type of Incentive/ Remedy	Description
Cost-Based	Relates the contractor's profit or fee to results achieved compared with identified cost-based targets.
Award Fee	Allows contractors to earn a portion (if not all) of an award fee pool established at the beginning of an evaluation period.
Share-In-Savings	The contractor pays for developing a finished product and is compensated from the savings it generates.
Share-In-Revenue	Generates additional revenue enhancements; compensation is based on a revenue sharing formula.
Balanced Scorecard	Used when performance is less tangible, i.e., contracting linked to the quality of lead personnel or communication and resolution of issues.
Past Performance	Information on past performance by the contractor is used as part of the decision process to exercise contract options or to make contract awards.
Non-Performance Remedies	Specified procedures or remedies for reduction in payment when services are not performed or do not meet contract requirements.

Source: California Performance Review.

who can more effectively and cheaply handle it. A department which uses a strategic approach will open this sort of non-core function to competition to drive down costs.

The federal government has used this approach extensively. The Federal Activities Inventory Reform Act of 1998 (FAIR) was designed to reduce federal

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agencies' operating costs and increase their efficiency through the use of public-private competition. It encourages agencies to evaluate their core functions and determine which can be subjected to competition with the private sector. It requires an annual inventory of "commercial" activities.

Similarly state and local governments nationally have used this approach to cut costs and make the most of limited staff resources. Virginia, for example, adopted the Government Competition Act in 1995, creating a process that is estimated to have saved the state \$40 million a year. Similarly, in 1993, Texas created a Council on Competitive Government to look at alternative services methods, including managed competition, outsourcing, reengineering and public-private partnerships. Through 2002, the state had saved an estimated \$84 million.

Action: *The state should create a Competitive Government Policy Council to examine and promote competition opportunities for non-core state functions.*

This council should develop strategies to remove barriers to alternative service delivery methods, such as managed competition, where it makes sense for the state.

Common Sense Decisions

Government should stop blindly following practices, because "that's the way it's always been done." CPR's research turned up scores of examples of where our state has not used the sort of common sense we would expect from the average citizen confronted with the same decisions.

School Construction Approvals.

The most striking example of this problem is the tortured method the state uses for approving school construction. State law requires local school districts to seek approval from at least four state agencies every time they construct a new facility, and depending on the site, as many as 40 other state programs may become involved. The Department of Education reviews site and educational requirements. The Department of Toxic Substances reviews potential environmental hazards. The Office of Public School Construction reviews funding eligibility and allocation, and the Office of the State Architect reviews construction plans for compliance with local building codes.

All of these activities are worthy safeguards when the lives of children are involved, but the state must ask itself if all of this review in Sacramento is really necessary for school buildings all over the state, particularly when the real responsibility for local education



decisions should rest with local school administrators and locally elected school boards.

At the very least, we should use common sense and simplify this overly bureaucratic review process. The point of school building programs is to provide safe, new facilities for the state's school children, not to create unnecessary layers of state review.

Action: *The school site approval process should be consolidated into a single department to provide a one-stop approval process.*

By making these changes, the same approvals can occur at a lower cost, faster and at greater convenience to school districts.

Maintain the Highway

Infrastructure. Another common sense decision CPR identified is related to highway construction and maintenance. Clearly, this is an important issue to Californians. The California Department of Transportation (Caltrans) is responsible for maintaining 50,000 lane miles of roads, 12,000 bridges, 250,000 acres of roadside areas, 88 roadside rests and many other facilities.

These totals reflect a massive capital investment by the state's taxpayers, and yet, the maintenance of this infrastructure is largely ignored while the state

continues to add more lane miles. While the state's transportation demands clearly require building the state highway system, the state should do a better job of maintaining the infrastructure that is already in place.

Caltrans' own studies indicate that a dollar spent today on preventive maintenance—joint and crack sealing, surface seals and so on—translates into a \$20 saving for reconstruction due to failure in the future. It's only common sense to maintain existing roadways to avoid the need for costly replacement.

The CPR report outlines strategies that can help save money in the State Highway Account so it can be channeled into preventive maintenance. Outsourcing roadside rest area maintenance also could save the state up to \$10 million annually, while improvements in the way prime contractors insure state projects could save an additional \$10 million a year.

Action: *The state should commit more State Highway Account resources to preventive maintenance.*

Relinquish Local Road

Maintenance. The state should also relinquish some of its existing road infrastructure to local governments. Of the 50,000 miles of roadway the state maintains, up to 6,000 miles are roads that go through local city limits. As new state highways have been

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constructed, these arteries have been bypassed, and they have become, basically, local streets. However, the state continues to maintain them, increasing state costs that could better be used for actual state highway construction and maintenance.

This practice makes no sense when state highway dollars are already stretched to the breaking point, and in fact, some local governments have tried to have roadways relinquished to them.

As long ago as 1995, Caltrans performed a study on the existing state highway system, identifying 3,262 miles of roads that were more appropriately maintained by local governments. The report resulted in no changes in ownership, and today, the number of miles of such roads has actually increased.

Action: *The state should examine the routes identified by Caltrans for possible relinquishment to local governments.*

Approximate savings to State Highway Account funds from this change could total \$100 million a year. These dollars are best used to maintain and expand the current state highway system. Diverting dollars to local road maintenance simply doesn't make sense, regardless of the origins of the roads.

Better Debt Collection. The state does business with a large number

of vendors, often paying millions of dollars for their goods and services. At the same time, a small but significant percentage of those vendors may owe the state money, often as a result of a tax delinquency or other liabilities. State law allows the debt to be offset against the amount the state owes to the vendor in the form of an offset.

Often the debt is owed to one agency, and another agency may contract with a vendor without knowing of payment problems in another agency. Until recently, there was no way for agencies to cross check their vendors for debts to the state. However, the recently implemented State Contract and Procurement Registration System can provide this information. Unfortunately, there is no requirement that departments use the system, and most do not.

Action: *State agencies should use the State Contract and Procurement System to determine if the vendor owes the state money that can be offset against the state's payment.*

The state could increase its success in collecting debts owed to the state agencies if agencies used the system on a routine basis.

Statewide E-mail System.

California state government is a large, far flung enterprise that literally covers the state. To be effective, its internal communica-



tions must be fast and efficient, particularly with the widespread use of electronic mail for low-cost, instantaneous communications. At present, our system is hopelessly behind the times.

As the California Performance Review was getting started, the Governor wanted to send an e-mail to all state employees inviting their participation and ideas. This simple task, repeated millions of times a day in businesses and public sector agencies across the nation today, proved to be impossible for California state government. Instead, this message—and any other message like it—was sent to agency and department heads to be forwarded to their employees. Even with the best intentions, the possibility of problems and misinformation is enormous.

This is a simple problem, but a significant one. One study by the Department of Finance in 2003, found the cost of providing e-mail to department employees ranged from \$144 to \$216 a year. The total cost of providing the current fragmented e-mail system was estimated at \$21.6 million a year.

Moreover, the widespread occurrence of computer viruses raises real security issues, because it is uncertain to what degree agencies actually maintain current security safeguards. As one example, the Love Bug Virus in 2000 disabled the e-mail system in

the Franchise Tax Board for four days, causing a loss in productivity on top of the costs to identify and eliminate the problem.

Given these problems, growing number of states are shifting to consolidated messaging systems. Over time, this approach can lower costs, improve service and provide tighter security. Ohio, for example, lowered its annual cost of messaging from \$11 million to \$2.1 million.

This approach should be implemented in California. Consolidated hardware and software licensing should produce savings across the state. The consolidation would also reduce state costs for buying and maintaining hardware and providing staff to perform maintenance and related activities.

This approach is a clear example of a common sense approach. It will provide state workers with a better and more secure messaging system, and it will greatly reduce state costs. Compared to the current estimates of about \$21 million annually, the state should recognize significant savings as a majority of e-mail accounts are shifted to the new system.

Action: *The state should consolidate departmental e-mail services.*

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Reforming the Failed Corrections System

California's multi-billion dollar corrections system has long been the source of criticism and media scrutiny. Among the problems mentioned: out of control costs, a high recidivism rate, abuse of inmates and juvenile wards by correctional staff, a disciplinary system that fails to punish wrongdoers, and the failure to deliver mandated health care to inmates and juvenile wards in an economical manner.

Because of this, Governor Schwarzenegger established a Corrections Independent Review Panel under the leadership of former Governor George Deukmejian. The panel had a simple mandate: To conduct an independent review of the corrections system and report its findings to the public at the same time that it delivered its report to Governor Schwarzenegger.

The panel consisted of more than 40 members, including an outside executive director, outside consultants, and representatives from the Department of Corrections, the California Youth Authority, the Office of the Inspector General, the Board of Prison Terms, the California Highway Patrol and the Labor and Workforce Development Agency.

The panel was divided into eight teams: Organization, Ethics and Culture, Discipline, Use of Force, Personnel and Training, Risk Management, Population Control and Institution Closures. In addition, the Panel examined the current labor contract between the state and the California Correctional Peace Officers Association and the technology challenges facing the correctional system.

The California correctional system is comprised of more than 54,000 employees, with a total budget of about \$4 billion, representing 5.6 percent of the state budget. The system includes more than 300,000 inmates and parolees and 8,400 wards and juvenile parolees.

The panel's overarching conclusion:

"At one time, the California correctional system was looked upon as a national leader. Innovative and daring, California pioneered the way for standards which were adopted by other jurisdictions as a model of efficiency. What then, has happened to this jewel of the corrections system?"

“How did we fall from the pinnacle of success? The answers are complex, yet simple. There has been too much political interference, too much union control and too little management courage, accountability and transparency.”

The panel found that much needs to be done to reform the California correctional system if its credibility is to be restored in the eyes of the public. Noting that all of the changes it recommends cannot be accomplished at once, the panel reports that “its recommendations should be accepted as a blueprint for future budgets and policy decisions.”

The panel outlines a number of recommendations that should be accomplished as soon as possible. They include:

1. Reorganizing the Youth and Adult Authority Agency.
2. Changing the culture and reinforcing strong ethical behavior.
3. Ensuring that the best candidates are being recruited and that all employees are properly trained.
4. Establishing discipline and use of force policies which are fair and equitable to the employee, the department and the public.
5. Changing the way we manage inmates/wards so that they are better prepared to reenter society as a productive member.

“It should also be recognized,” the panel’s report concludes, “that cultural change can be painfully slow, but we must begin now. Above all, the panel’s work was conducted with one major goal in mind...the increased safety of the citizens of California.”

Tools for the Digital Age

"Most governments are far behind business in using the tools of the digital age. Businesses going digital are stuck with many paper forms because governments are not yet online."

Bill Gates

HIGH-PERFORMING
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RELENTLESSLY
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THEY THRIVE IN
A WORLD THAT IS FAST-
PACED, GLOBAL AND
TECHNOLOGY-BASED.

CPR Diagnosis

- **Service delivery systems are outdated and inconvenient.** The predominant symbols for service delivery by state government are long lines at multiple windows and over-the-counter, paper-based transactions.
 - **Internal systems are antiquated and fragmented.** There are no enterprise-wide systems for budgeting, accounting, human resources or procurement, and the fragmented systems that we have are outdated. Effective statewide management is impossible in this context.
 - **Statewide planning and implementation for technology is ineffective.** There is no strategic plan for statewide information technology, and no statewide implementation of technology projects.
-

High-performing organizations, whether public or private, are flexible, responsive and relentlessly customer-oriented. They thrive in a world that is fast-paced, global and technology-based. Successful 21st century organizations match that fast tempo, broad scope and

technological sophistication, and do so at a significantly reduced cost, using technology to improve productivity and create new services and service delivery systems.



Prescription for Change

- **Use technology to improve service delivery.** Our citizens live in the most technologically advanced state in the U.S. Better technology for instantaneous service won't be a frill in the future; it will be an imperative.
- **Rewire our internal operations.** Bringing about fundamental change in our internal operations is essential if we want better programs, improved service and lower costs.
- **Rethink how technology is managed for the future.** Our current system doesn't work effectively. It must change.

Ironically, while California is the cradle of technology and hosts some of the world's leading technology innovators such as Intel, Cisco Systems, Hewlett Packard, Adobe and others, its government is stuck in 20th century technology and business practices.

While successful 21st century organizations depend on enterprise-wide information systems to streamline operations and reduce costs, California's information technology systems are "stove-piped." That is, our systems are controlled by individual agencies which independently struggle to maintain their own information and control their own systems. Collaboration across agencies is rare.

Here is an example of a frustrated citizen just trying to get his vehicle tags renewed in spite of state

computer systems that don't work with each other:

"Last year, I didn't get my tags from the DMV because they said they did not receive my smog certificate. Looking up my car on the DMV website, I could see the smog report there. However, I called the DMV, and they said it was not in their computer. It was in the Bureau of Automotive Repair's computer, and I needed to get a copy from the shop that did the test and send it to them. The problem with this was that the shop had gone out of business."

"I tried to get this straightened out with the DMV by phone. They let me print out what was on their website and mail it to them. Even though I could see the report from my computer on the DMV website, the DMV personnel did not have access on their computers to their own website."



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California government must do better. It has to modernize. We can no longer tolerate a government that is slow, insular and locked in the bureaucracy of mid-20th century processes. Californians demand a government that is oriented towards action and responsiveness and that is affordable, accessible and accountable. To make this transformation, we need to make far-reaching and fundamental reforms in our use of technology.

Governance

The leadership of California's technology transformation should be flexible and responsive, and it must have a statewide focus. Technology is a powerful engine for change, but only if properly harnessed and channeled.

Today, however, our technology governance reveals years of incremental budgeting, poorly coordinated program management and a lack of statewide leadership. The consequence is the piecemeal accumulation of applications and incompatible systems that do not interact and dissipate our financial and technical capacity. We don't even know how many applications the state actually owns.

We must change. We must start thinking strategically, deciding what technologies should be used and how to apply them to reinvigorate the state. We need a statewide strategic plan for

information technology. To create that plan and the conditions for its successful implementation, the state must reestablish an office of the state Chief Information Officer (CIO) which is empowered by the Legislature to provide statewide technology leadership and to set for the Executive Branch information technology policies, standards and plans.

Action: *The Governor should permanently appoint and empower a state Chief Information Officer to provide planning and direction for the state's technology investments. The Chief Information Officer should have authority for statewide technology leadership, policy, standards, strategic planning, coordination and information security.*

State Technology Investment.

Gaining control and oversight of the state's technology spending must be a matter of high priority for California. We need the "traction" provided by adequate funding for the most important initiatives. Our limited financial and technical resources must be prioritized for the greatest return on investment.

We should aggregate the state's buying power and make sure it is used wisely for the right technology for our times. Unfortunately, our incremental budgeting process obscures technology spending within many program budgets, making it almost

impossible to find out how much we are spending, what technologies we are purchasing, whether they will work together, or whether the state is getting the best value.

The imposition of the annual state budget development schedule on project approvals leads to rushed decisions and incomplete planning, whipsawing any effort to construct a long-term strategy. Something as strategically important as our technology investments must not be subjected to the fluctuations and narrow approval windows created by the annual state budget cycle.

Action: *The Governor should establish a State Technology Investment Fund.*

Technology Commission.

A 21st century government must not make technology investment decisions in a piecemeal or shortsighted manner. But today, most of these decisions are made department-by-department and project-by-project. That is no way to do business.

Breaking free requires a statewide focus and united executive sponsorship so that priorities are aligned and balanced with overall statewide priorities. This broad, unified focus and sponsorship is best attained by establishing a Technology Commission chaired by the state CIO and including representatives from each cabinet secretary. The Technology Commission would have power

to approve funding from the State Technology Investment Fund for information technology programs and projects.

Action: *The Governor should establish a Technology Policy Council chaired by the state CIO and with membership from the Governor's Cabinet to establish state technology priorities and approve the funding for programs and projects.*

Service in the Blink of an Eye

California has been slow to implement technology to improve government services. We have failed to embrace the shift to customer service, providing citizens and businesses *what* they want, *how* they want it, *when* they want it and *where* they want it.

We must focus on coordinated, statewide solutions and not just agency-specific activities. And, the solutions must be centered on customer needs, not government needs. They should be uniformly responsive regardless of whether our customers choose to obtain our services through walk-in, phone, e-mail, FAX or U.S. Mail. Such multi-channel solutions can provide services that are easy-to-use, accurate, on time and cost-effective.

For example, the Department of Motor Vehicles (DMV) is demonstrating leadership by

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improving service in areas such as reducing long lines at field offices. The department's use of technology has improved processes, reduced operational costs and promoted better service. In Fiscal Year 2004–2005, the DMV plans to re-invent and expand its online services.

A good plan by one department is not enough. Instead, a statewide plan and a center of focus for the plan are needed. That focus is the state portal—MyCalifornia (www.ca.gov)—through which citizens and businesses should be able easily to travel to find the services or information they want or need. The state began to develop its existing portal three years ago, but that development stalled. We have now fallen behind in the use of Internet technologies to serve the public, and we need to recapture that lost ground. We should use the DMV's decision to expand its online services to kick-start other statewide initiatives such as online licensing, permitting, registration and reporting.

Action: *The state's Chief Information Officer should direct the implementation of statewide technology solutions including a redesign of the state portal—MyCalifornia (www.ca.gov)—to provide a statewide platform for all government services.*

Modernize Management Systems

Our dependency on technology within state government is significant and inextricably linked to the delivery of all government services. Yet our internal technology operations are in crisis. They are dispersed across hundreds of agencies with no strategic direction or alignment with overarching statewide goals. New initiatives have been muted by the budget crisis, restricted by lack of coordination across the government and held back by archaic, bureaucratic processes. There has been no overall coordination of our use of technology. The results are that our internal operations are poorly organized, duplicative and inefficient.

We should deliver better and more efficient services through high quality information technology applications that integrate state processes and share information. Collaborative use of technologies, however, is extremely rare within California government. For example, we rely on hundreds of separately managed e-mail systems for internal

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communications, and a multitude of disparate systems for managing our accounting, human resources, and procurement and asset management. This disjointed environment undermines the operational integrity of state government and delivery of services to the people.

To bring order to this chaos, the state should first establish an integrated intranet where we can lay the essential foundation for collaboration and efficient, secure data sharing among agencies. Identifying and implementing a set of common, uniform applications that automate business processes across all Executive Branch organizations is the next logical

step. Priority should be given to centrally managed applications such as e-mail, security and anti-virus tools and directory services. These “utilities” can be provided cost effectively on a large scale. Next, we should develop and centrally host “shared services” applications that will provide the backbone for business management statewide, such as budgeting and accounting, managing human resources, asset management and procurement management.

Action: *The Chief Information Officer should establish an integrated state government intranet, and direct the development of common systems as “shared services.”*

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Executive Branch Organization: Start Making Sense

"Government programs once launched never disappear. Actually, a government bureau is the nearest thing to eternal life we'll ever see on this earth."

Ronald Reagan

TODAY, BUSINESSES
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STATE GOVERNMENT IS
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DEPARTMENTS WITH
OVERLAPPING AND
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CPR Diagnosis

- **The state's complex and incoherent organizational structure undermines accountability.** With more than 300 boards and commissions, 11 agencies and 79 departments there are overlapping, duplicative and conflicting assignments.
 - **Government is a maze.** Only insiders and special interest groups can navigate the current structure.
 - **Common administrative services are fragmented and duplicated.** Agencies and departments have redundant administrative support functions which wastes hundreds of millions of dollars annually.
 - **Bureaucracy works against itself instead of for the citizens.** Bureaucratic paperwork and internal conflicts come first. Quality of service delivery is not job one.
-

One of the first problems Governor Schwarzenegger noted when he took office was California's cumbersome bureaucracy. Today, businesses are flattening their organizations and using

information technology to improve productivity. In contrast, California state government is an archipelago of isolated island departments with overlapping and duplicative functions.



Prescription for Change

- **Align state programs by function.** Effective government aligns function and organization. Only in this way can managers determine if the assigned functions are carried out efficiently and hold agencies accountable for their performance.
- **Consolidate administrative services.** Common internal services—such as human resources, purchasing and accounting—should be consolidated to achieve economies of scale and to reduce duplication.
- **Focus on services.** By centralizing administrative services, the new divisions will be able to shift their focus from managing paperwork to delivering services.
- **Focus on quality.** The alignment of government programs into the new functional departments is a merger of program and service delivery structures, not a takeover of one part of government by another. This will ensure that the best people, the best ideas and the best practices are identified and used.

The state's organizational structure simply does not mirror the dynamics of the state's innovative and visionary legacy. Instead of serving the people, it is weighted down by the bloat of its own processes and procedures. It is bureaucracy at its worst—costly, inefficient and unaccountable to the people.

Over the years, numerous agencies, departments, divisions, bureaus and commissions have been established in the Executive Branch. As organizational entities and programs have been added, the state's organization has become bloated, confusing and

frustrating to people both inside and outside government.

The Legislature also has assigned hundreds of individual programs to the Executive Branch. Many of these assignments may have made sense at the time or in the single context in which they developed, but taken together, they drain the efficiency of the government as well as the taxpayers' pocketbooks.

These additions and compromises have resulted in a government that only makes sense to the special interests—the experts on getting things done within the maze of the bureaucracy. Departments and programs have been designed for



the convenience of government and the bureaucracy, not for the convenience of the people.

Departments and programs must be reoriented with the people of California in mind.

Today, our state government is not structured in the best way to do the job entrusted to it by the people. A simple review of its current organization shows a bewildering array of agencies and departments—an inefficient patchwork that promotes redundant missions and wastes precious taxpayer dollars (Exhibit 13). California's Executive Branch is currently composed of:

- More than 300 boards and commissions with more than 2,500 appointees;
- 11 agencies; and
- 79 departments.

There are many boards and commissions that are not accountable to the people and serve no pressing public need. California's complex organizational web has such a large reporting structure that it is difficult to focus on strategically important information and initiatives or to assess program performance and productivity.

The problems created by the current organizational structure can be found in every corner of the

government, but three examples illustrate the need for change. In this regard, it is useful to look at health and human services, education and business licensing—areas that collectively touch the majority of Californians in one way or another.

California's Health and Human Service Agency is a maze of overlapping and confusing programs. Often people do not know where to turn for help, or they must negotiate a complex bureaucracy that wastes time and money and diminishes the dignity of those in need of assistance. Often they find dedicated state workers who want to help, but are handcuffed by the unyielding system in which they work.

Businesses involved in health or community care are forced to contact different entities to become licensed. There are, for example, two *different* departments with responsibility for nutrition. Health care data are collected by multiple departments within the agency and stored in 60 different computerized systems, making a real understanding of the success or failure of programs impossible. Within this fractured system, it is difficult for even the best-intentioned people to coordinate programs and activities.

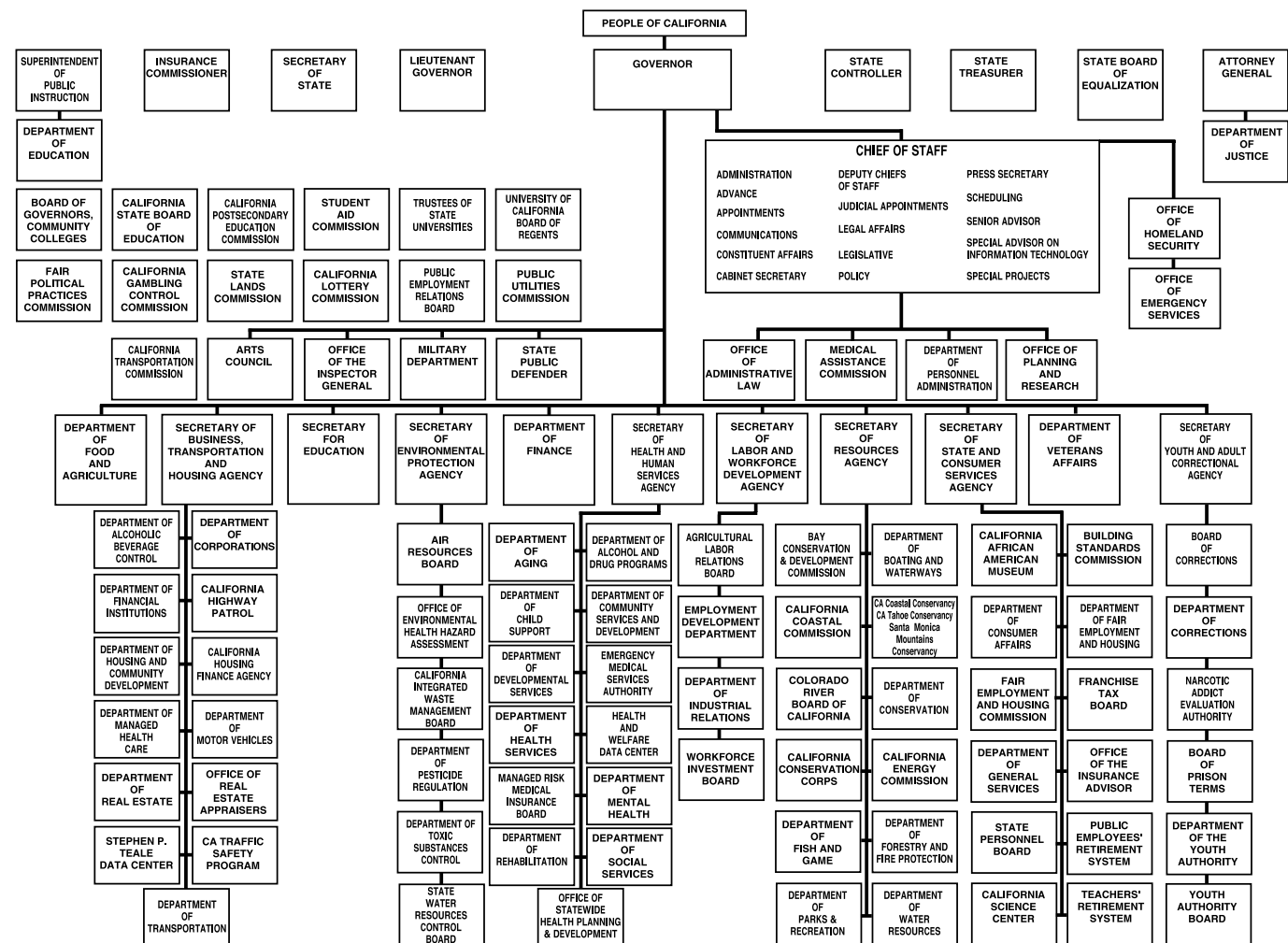
Currently, separate eligibility determinations are made for

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EXHIBIT 13

CALIFORNIA STATE GOVERNMENT - CURRENT ORGANIZATIONAL STRUCTURE

CALIFORNIA STATE GOVERNMENT - THE EXECUTIVE BRANCH



Source: Department of General Services.



THE STATE, AS IN MANY
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food stamps, the Medi-Cal and the CalWORKs programs. These programs touch a huge number of Californians. In fact, they touch a huge number of the *same* Californians. Reorganizing and coordinating this area of government is imperative, so that those in need are helped, not harmed by a system designed to offer assistance.

Much the same story exists in education. Here, the organizational problems are two-fold. First, the state has no central oversight over the public school and higher education systems. The second problem is that the state, as in many states, must forge a clearer connection between education and workforce preparation. In the 21st century, the link between a successful economy and lifetime learning is inescapable. The state has made attempts, but the organization of its education and workforce programs does not provide what California needs if it is to be a global leader in the coming decades.

Today, more than 20 state entities are responsible for education and workforce preparation policy. Coordination to provide effective policy development for education is impossible. The system tragically wastes money which should be spent in the classroom.

Education policy-making is a maze. California has a State Board

of Education, a Superintendent of Public Instruction and a Secretary of Education. The state's college and university systems are largely autonomous. They lack overall coordination. The state's community colleges have a central role in the training that many Californians receive to succeed in the 21st century economy. Many of the courses offered at community colleges, however, are not based on any current analysis of labor force needs. The community college system does not project future employment trends to ensure California has an adequately trained workforce capable of meeting industry's needs in the future.

A final example of the state's organizational problems is business and professional licensing. The state's list of business and professional licenses takes up 15 single-spaced pages, listing hundreds of required licenses, permits and certifications. Statutes and regulations run into thousands of pages. Under these circumstances, people seeking to obtain a license, or consumers trying to lodge a complaint about a problem, do not know where to turn.

Dozens of boards and commissions are responsible for regulating particular professions. Many are small and virtually all have overlapping and duplicative administrative processes, because

many aspects of the licensing process are common to all programs. Moreover, with small agencies focused only on one business or profession, there is always the risk that the board will be “captured” by the industry it should be regulating, accepting lax standards instead of protecting consumers.

California can do better. The state can eliminate the overlap among programs. It can consolidate administrative functions and save money. It can make better use of state employees’ time and energy. It can make the government more understandable to its citizens and better designed to meet their needs.

None of this will be accomplished, though, through stopgap measures and half-hearted attempts at coordination. We have to do what the Governor suggested in his State of the State address—we have to blow up the boxes. We have to reorganize the government from top to bottom.

Action: *The organization of California state government should be overhauled to make it more efficient and streamlined to unleash the productivity of its workforce.*

The goal of this restructuring is to realign functions into clearer organizational clusters and to eliminate as much overlap and duplication as possible. The

proposed new organizational framework is shown in Exhibit 14. It realigns the many existing agencies and departments into 11 integrated departments and eliminates more than 100 boards and commissions so that state programs better serve the people of California.

This organizational framework restructures government to meet the demands of modern California by aligning functions as closely as possible according to the major purposes of state government. It will promote accountability and improve productivity by facilitating results-based management.

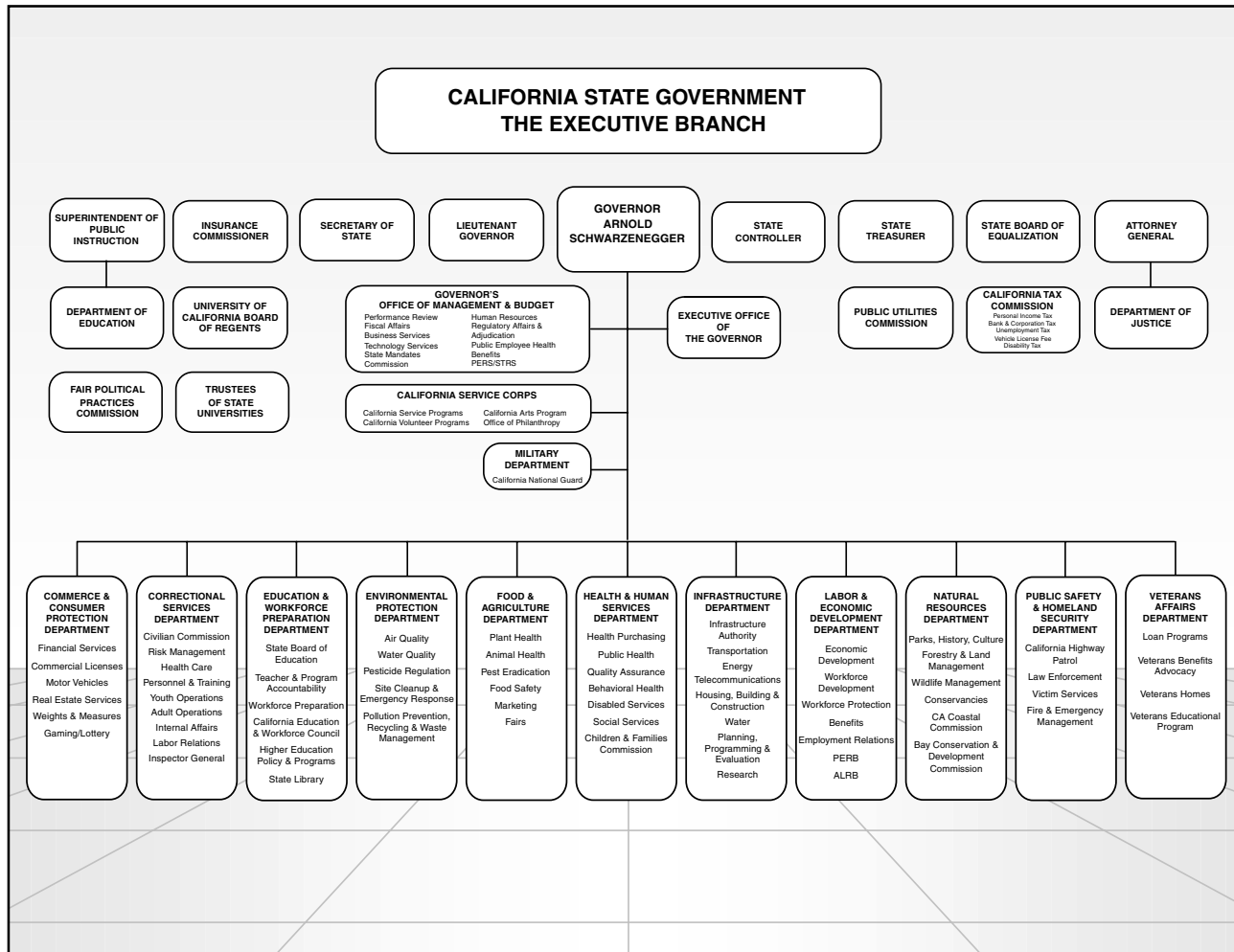
The plan organizes programs into logical departments tied by function and client population. It eliminates situations in which more than one cabinet officer is responsible for similar or duplicative programs. By clarifying responsibilities and lines of authority, government can more effectively serve the intended beneficiaries of the state’s services without creating frustrating mazes for our citizens to negotiate.

Reorganizing California state government also will save taxpayer’s dollars. We have a government today that wastes money through overlap, duplication and systemic inefficiency. In today’s global

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EXHIBIT 14

STATE OF CALIFORNIA
PROPOSED ORGANIZATION

Source: California Performance Review.

economy, a new government structure will allow for the evaluation of all service delivery methods to ensure cost-

effectiveness. With a more efficient structure and organization for delivering services, the overall cost of government will be reduced significantly.

Renew the Dream

"Let us remember the greater good of California. I remain a great believer in the future of this state. I did not seek this job to cut...but to build. I did not seek this job to preside over the decline of a dream...but to renew it."

Governor Schwarzenegger

In the end, the people of California want government to build roads, provide public schools, and apprehend and imprison criminals. They want a government that provides for society's most vulnerable members—children, the elderly, the disabled and the impoverished. By the same token, they do *not* want a government that is wasteful, inefficient or a drag on the state economy.

We believe this report provides a prescription for meaningful reform and a framework that will enable us to create a government that is a model for others to follow in the new century. It won't be easy. The future won't be won in a day. But it is worth the effort.

The California Performance Review's Prescription for Change is the strong medicine needed to restore California's health, vitality,

and prosperity. It is the bold intervention required because so many fundamental aspects of what makes California great and dynamic have been allowed to deteriorate and fail.

But even more, CPR's Prescription for Change is an action plan for the future. Californians are not timid or hesitant when their fundamental hopes and dreams are at stake. They took decisive action in the 20th century when Hiram Johnson was Governor and mobilized their energy, seizing the machinery of government to make it more responsive, fairer and accountable. The Prescription for Change discussed in this report and the other reports of the California Performance Review is our answer to the people of California's demand for reform and change.

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FOR OVER A CENTURY AND
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CALIFORNIA DREAMS THE
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The Prescription for Change, like the California Performance Review, is a promise of renewal and hope. It is dramatic and farsighted like the new Governor who called for it. Far-reaching structural changes must be made to California government. The way government serves the people must be overhauled. But, none of this will happen without the insistence and dedication of the people of California to reform.

For over a century and a half, the people of California have embraced the dynamic role they play in the

life of this nation, and indeed, the world. California's dreams are the nation's dreams; they are dreams that become amazing realities. The Prescription for Change is precisely that kind of dream because it expresses the best and promises the best to the people of this state.

When the Prescription for Change is put in place, the people will have the first 21st century government in America.

This is a dream worth pursuing.